# Business and Politics in Provincial Indonesia

## The Batik and Construction Sector in Pekalongan, Central Java

Amalinda Savirani

UNIVERSITY OF AMSTERDAM

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The Batik and Construction Sector in Pekalongan, Central Java

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# Business and Politics in Provincial Indonesia

The Batik and Construction Sector in Pekalongan, Central Java

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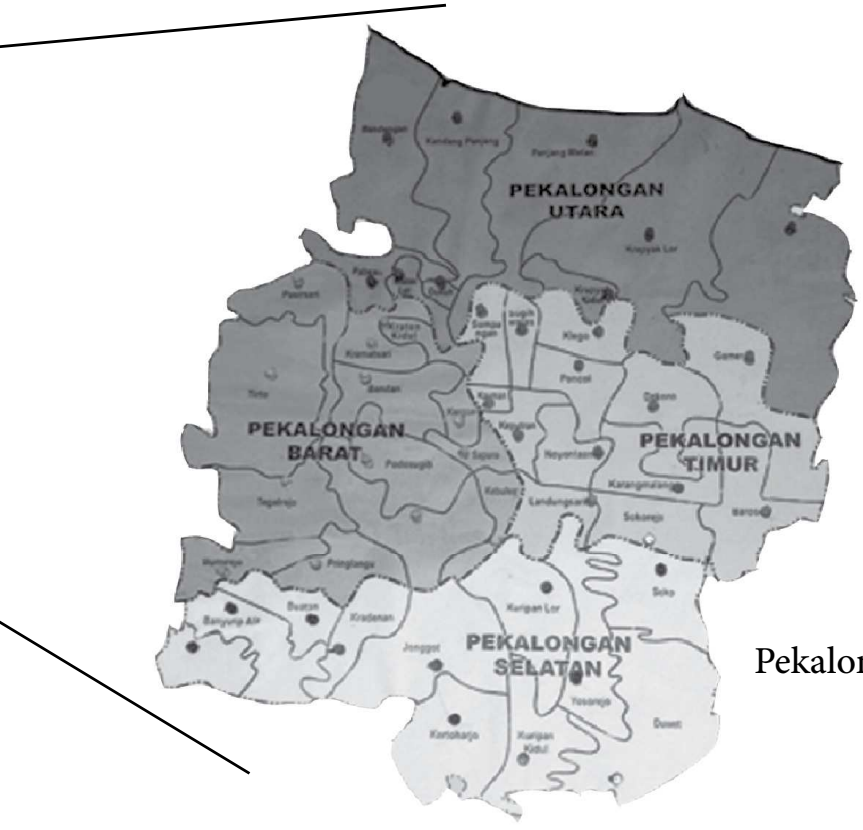


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# ACCRONYMS

| | |
|---|---|
| Aksindo (Asosiasi Kontraktor Konstruksi Indonesia) | Indonesian Association of Construction Workers |
| APBD (Anggaran Pendapatan Belanja Daerah) | Local Budget |
| APBN (Anggaran pendapatan Belanja Negara) | National Budget |
| APEC | Asia Pacific Economic Cooperation |
| Asephi (Asosiasi Eksportir Handicraft Indonesia) | Association of Indonesian entrepreneurs |
| BOS (Bantuan Operasional Sekolah) | School Subsidy Budget |
| BPS (Badan Pusat Statistik) | Central Bureau of Statistics |
| DAK (Dana Alokasi Khusus) | Special Allocation Grant |
| DATI I (Daerah Tingkat Satu) | First Level Autonomous Region, provincial level. The term used during the Soeharto era before the decentralization policy issue in 2001. |

| | |
|---|---|
| DATI II (Daerah Tingkat Dua) | Second Level Autonomous Region, town/district level. The term used during the Soeharto era before the decentralization policy issued in 2001. |
| DPRD (Dewan Perwakilan Rakyat Daerah) | Regional House of Representatives at provincial level (Second layer of Indonesian administrative system) |
| DPRD (Dewan Perwakilan Rakyat Daerah) | Regional House of Representatives at city/district level. (Third layer of Indonesian administrative system) |
| GAPEKNAS (Gabungan Pelaksana Konstruksi Nasional) | National Association of Contractors |
| GAPEKSINDO (Gabungan Perusahaan Konstruksi Nasional Indonesia) | Indonesian Construction Companies Association |
| GAPENSI (Gabungan Pelaksana Konstruksi Indonesia) | Indonesian National Contractors' Association |
| GDRP | Gross Domestic Regional Product |
| GKBI (Gabungan Koperasi Batik Indonesia) | Indonesian Association of Batik Cooperatives |
| IMF | International Monetary Fund |
| Kadin (Kamar Dagang dan Industri) | The Indonesian Chamber of Commerce |

| | |
|---|---|
| LPJK (Lembaga Pengawas Jasa Konstruksi) | Construction Services Industry Board |
| NU (Nahdlatul Ulama) | The Awakening of Ulama or Moslem Scholar, Indonesia's Largest Moslem Association, primarily associated with traditionalist Islam |
| PAN (Partai Amanat Nasional) | National Mandate Party |
| Partai Golkar (Golongan Karya) | The Party of the Functional Groups |
| PAS | Public Areas Service |
| PDI (Partai Demokrasi Indonesia) | Indonesian Democratic Party |
| PDI-P (Partai Demokrasi Indonesia-Perjuangan) | Indonesian Democratic Party of Struggle |
| PNI (Partai Nasional Indonesia) | Indonesian National Party |
| PPBP (Paguyuban Pencinta Batik Pekalongan) | Pekalongan Batik Lover Association |
| PPP (Partai Persatuan Pembangunan) | United Development Party |

# GLOSSARY

| | |
|---|---|
| Adat | Traditions or customs |
| Alun-alun | The main square of a city |
| Al Irsyad | Arab-descent Social Foundation |
| Benteng | Affirmative economic policy during the Soekarno era to protect native (*pribumi*) business |
| Bupati | Head of district (*kabupaten*) |
| Canthing/ canting cap (also referred to as cap) | Copper stamps used for printing cloth; the cloth is called *batik cap* |
| Canthing/ canting tulis | Small copper bowl attached to piece of bamboo to make a pen-like instrument for applying wax to cloth by hand; the cloth is called *batik tulis* |
| Dinas | Government office |
| DPRD (*Dewan Perwakilan Rakyat Daerah*) | Regional House of Representatives. Administratively, there are two levels of the DPRD at the local level: the province level of the DPRD (the second layer of the Indonesian administrative system) and the city or district (the third layer of the Indonesian administrative system). The focus of this thesis is on the third level. The Pekalongan government consists of the city-level DPRD (the legislative wing) and the mayor (the executive wing) |
| Juragan | Boss, the owner of a traditional batik workshop |

| | |
|---|---|
| Kaji | Javanese term for addressing a person who has completed the Hajj (pilgrimage to Mecca) |
| Kecamatan | Administrative unit part of local government, which is higher than *kelurahan*. During Soeharto era, it used to be important politically, because it functioned as a control instrument for society's activities |
| Kelurahan | Lowest unit of administrative system in Indonesia in urban areas. In rural areas it is called "desa" or village |
| Komite sekolah | School committee |
| Paguyuban | Community-based group |
| Pesantren | Muslim boarding school |
| Preman | Thug |
| Pribumi | Native Indonesian |
| Sablon | Silk-screen stamp |

# Introduction

# INTRODUCTION

This thesis is about the relationship between business and politics, or the state and business people, in Pekalongan, a provincial town in Central Java, Indonesia. The fall from power of the Soeharto regime in 1998 led to radical political changes—electoral democracy in 1999 and political decentralization in 2001 which gave increased power to legislators and civil society parties in provincial cities, such as Pekalongan. In the decade from 1998 to 2008, the Indonesian economy became increasingly integrated with the global market. The result has been a shift in the way politics and business is carried out and a change in relationships between politics and business, which is most noticeable at the provincial or local level[1]. So far, few studies have been carried out to try to understand the nature and dynamics of these changes.

The close relationship between the state and business in Asia is widely recognized (McVey 1992: 8; Yoshihara 1988, Eklöf 2002, Chua 2008), and Indonesia is no exception. This understanding feeds into the popular understanding that it is almost impossible to carry out business in Asia without significant political connections (Robison 1986; Muhaimin 1991; MacIntrye 1991; Robison and Rosser 1998; Hadiz and Robison 2005, Chua

[1] By a provincial town I mean one that is not a major city of Indonesia situated at the local or provincial level. In a later section I provide a definition.

2008). Despite the widely-held conception of the intertwining nature of the state and business in Asia, the consequences for and the essence of the relationship remain heavily debated. Little is known about how the relationship actually works in practice; how it has changed over the years; what caused shifts in the relationship; and how to understand the nature of the impact brought about by these shifts. Moreover, few studies have been carried out at the provincial level.

The vast majority of Indonesian business entrepreneurs make their living in provincial towns, yet here we know little about the way politics and business are intertwined, and how relations between the two at this level differ from those at the national level. Even a casual observer will immediately be aware that what political scientists refer to as 'informality' is the key to doing business at this level. And since much of this informal sector is not accurately mapped by statistics— the quantitative, statistical research practices normally employed by economists— quantitative approaches will not be able to give an accurate picture of the changing relationship and its impact. This thesis aims to go beyond such analysis and focus on the backgrounds of relevant actors, their networks and their actual interactions by using sociological and anthropological methods.

This thesis is a study of business life in the two important industrial sectors in Pekalongan, the batik and construction sector, in the period 1998 to 2008. It focuses on the daily practices and interactions of local businessmen and politicians in Pekalongan. The above-mentioned national and global influences mean that it is also necessary to analyze this local arena as part of global and national processes of development, governance and neoliberal reform. So, as well as daily practices, the thesis also pays attention to the relevant changes in national political and global mechanisms, and how these influence business and political relationships at the local level. Thus the study combines 'a view from above' with one from 'below'.

The starting point of the thesis is the notion of 'informality'. Informality is understood here as the actual practices and interrelations of state and business actors, the everyday rules of the game, which often deviate from formal rules and procedures as stipulated by neo-institutional reform such as good governance principles and professionalization of bureaucracy

systems. Informality characterizes the daily practice of governance in Pekalongan. To give an example of how these relationships work in practice and to introduce the theme of the thesis, I introduce it by the life story of a well-respected, prosperous family in Pekalongan, the Djunaid family.

The key to the family's economic success has been the ability of successive family members to use informal political networks and strategies to promote their business interests, to win business contracts, and to help them change business tactics in response to political changes at the national level and in the global economy. Formal and informal political connections over several generations have been the key to the family's economic success. The story is thus a useful lens to identify and focus on the intricate interconnectedness of business and politics as it operates at the level of a provincial town in Indonesia.

## The Djunaid dynasty: Business and politics in Pekalongan (1949 – 2010)[2]

Ahmad Djunaid (1920-1982) was the founder of the family dynasty. He was a freedom fighter during the fight for independence against the Dutch in the 1940s. After independence, like many other former freedom fighters, he could make good use of his connections to the new political elite in Jakarta. Djunaid knew Mohammad Hatta, the first Indonesian vice president, an economist who had studied at the Rotterdam School of Commerce in the Netherlands. Hatta was in favour of supporting native (pribumi) businesses to develop the economy of the nascent republic. His government program, 'Benteng' (fortress), launched in 1951, was an affirmative economic program to protect small businesses and infant industries by way of cooperative societies. In Pekalongan, batik production was the main small-scale indigenous industry that became the focus of the Benteng program. The Pekalongan Batik Cooperative (PPIP), a cooperative which had been established in the 1920s, was reactivated during the Benteng program and got a leading role in the Indonesian Association of Batik Cooperatives, GKBI. Djunaid had already played a central role in the PPIP before independence;

[2] Based on several interviews with family members in 2008.

his connections in Jakarta, now enabled him to take on a leading role in the national cooperative.

The family of Ahmad Djunaid became rich and famous during this period because of Djunaid's central position in both the national and Pekalongan cooperative. Djunaid's position allowed him access to benefits as a leader of cooperatives, such as high salaries, state subsidies and cheap loans for his enterprises, as well as to new business opportunities in the batik business. The family did not keep all the money for themselves, but redistributed parts of the profit to help others and to support charity funds. The family thus became also known for their generosity towards the Pekalongan people.

When Soeharto assumed power in the mid-1960s, the new regime abolished special protection for small- and medium-scale enterprises, including the Benteng Programme, because it emphasized a growth-oriented economic policy. Growth means competition not redistribution. Consequently, around 80% of batik producers in Indonesia went bankrupt, including in Pekalongan. This decline affected the Djunaid family as well. They closed the family's batik business. In this difficult situation, the family tried another strategy. In 1974, Achmad Djunaid, together with other former members of the PPIP, also bankrupt, established a micro-finance institute in Pekalongan: the JASA saving and loan cooperative.[3] It aimed to provide capital for small-scale, batik pribumi who were having difficulties accessing credit after state protection came to an end. The founders of JASA, apart from the Javanese, led by Achmad Djunaid, consisted of ethnic Arabs and Chinese businessmen from Pekalongan. The latter provided the initial capital for JASA, while the Javanese figures were the leaders. JASA operated like a commercial bank: it accumulated deposits, channeled them as credit, and invested them in various business sectors. In the beginning, JASA operated only in the Pekalongan area and for Batik, later its format attracted many clients, also from outside Pekalongan and from outside the batik business community.

In the late 1990s, JASA developed and reached its peak during the economic crisis of 1998. While many commercial banks collapsed, clients searched out JASA, because they trusted the owners. Clients believed that

[3] Literally, JASA means 'service' in Indonesian.

the owners, who come from Pekalongan, would never run away like other bankers did after their banks collapsed. People trusted that the Djunaid family would act responsibly. In 2008, JASA's assets reached more than IDR 2 trillion (US$200 million). In 2010, it had 58 branches in Java and Sumatera, making it the largest cooperative of its kind in Indonesia. By law, a cooperative is forbidden to mobilize public funds and to operate as a bank. However, JASA managed to operate like a full commercial bank, because of Achmad Djunaid's friends at the ministry of cooperatives. Lobbying efforts to have JASA continue to operate as a commercial bank were ongoing during the leadership of Zaki Arslan Djunaid, Achmad's son, in the 1990s. Until today the process of negotiation is still going on.

After Achmad Djudaids death in 1982, Zaki Arslan (1945-2012), Ahmad Djunaid's son, ran the family business in the 1980s and 1990s. He proudly showed me a picture of his family in one of the Middle Eastern countries they visited after their pilgrimage to Mecca in the 1980s. The trip and pilgrimage must have cost a small fortune for someone living in a provincial town in those years. Both the batik business and JASA had positioned them as a respected business family in Pekalongan. Their support to other businesses and loans showed them as a family who cared about the life of small business in the city at a time when the government withdrew from supporting the indigenous batik industry in Pekalongan.

In the political world of Pekalongan, the Djunaid family has been a staunch supporter of Islamic parties in the decades after independence. Members of cooperative networks belonged to the Masjumi Party, a Muslim modernist party, established in the 1940s. Masjumi supported the Benteng Programme and other protective economic policies towards small and medium business. Small and medium scale entrepreneurs were the main supporters of Masjumi. When Soeharto forced the amalgamation of political parties in the early 1980s, the Djunaid family remained loyal to the Islamic party in which Masjumi resolved, the United Development Party (PPP). During the Soeharto period, Ahmad's son, Zaki Arslan, initially kept a low profile in politics which was dominated by Soeharto's Golkar party. However, he could not remain totally independent and became incorporated into the state system, at least indirectly. In 1987, he was part of the team to ensure

Golkar won the election in Pekalongan, the first time since Soeharto came to power. Zaki claimed, in a conversation in 2008, "Golkar would never have succeeded without my contribution. I was behind all of the set up [for Golkar to win]". However, his motivation was as much economic as political. He wanted to assist his relative, Kamaludin Bahir, to gain access to construction projects through the Golkar network. After Golkar had won, Zaki's relative got the contract to establish the first housing complex in Pekalongan and became a successful entrepreneur.

When Indonesian politics shifted from authoritarian to electoral democracy in 1998, Zaki officially retired from business and politics. His second son, Andi Arslan Djunaid, took the lead in the family business. In the meantime, Zaki remained an influential figure in politics in Pekalongan at the background. Three of the new Islamic political parties in Pekalongan told me that before they launched their local party branches they paid a visit to his house to get his support. "He has long experience in politics, and we respect him", the head of one Islamic party said to me. There are other reasons though: Zaki is well-known for donating to Islamic-related political activities, and "he does not disappoint those who pay homage to him", people say. After the fall of Soeharto opportunities for new and dynamic local politics emerged in which local councils are politically empowered, residents elect their mayor directly, and a vibrant civil society can flourish. In the 2009 local election, Golkar's candidate for mayor, Basyir Achmad, asked Zaki to suggest one of his sons to run with him as a candidate for deputy mayor. As Andi Arslan Djunaid, Zaki Arslan's second son, was in charge of the family business, they chose Alf Arslan Djunaid, Alex, his eldest son, born in the early 1970s, to run. Zaki had his own political agenda in mind: he wanted to use Alex's period as deputy mayor as an apprenticeship to prepare him for the position of mayor in the 2014 elections. The wealth and fame of the family, as well as Zaki's social and cultural activities—building a mosque and Islamic boarding school (pesantren)—contributed to the victory of the Basyir-Alex Djunaid candidacy. People in Pekalongan continue to speculate about how this political position will contribute to the family's business and political longevity, especially after Zaki Arslan's death in 2012.

The above case of the Djunaid family shows the tight and intricate connectedness of business and politics in just one family in Pekalongan. This family is exemplary of other elite dynasties in Pekalongan and their relationships with politicians and business operators. Moreover, it illustrates the changes in business and politics in distinct political periods throughout history. Not only regime shifts and major policy changes turned out to be important, but also personal contacts and good connections with other entrepreneurs and the wider public in Pekalongan town were crucial to maintaining success in business, and also in politics.

How can we explain this close encounter of business and politics, or the specific relationships between business and the state, within the current provincial setting in Indonesia? For this we need to understand more about the intricate relationships between politicians and businesspeople and how these relationships operate on a daily basis.

## Positioning this research

Over the past decades, research on the topic of state-business relations or politics and business relations in Indonesia has been dominated by studies on economic tycoons, or big business at the national level. To cite a couple of major works: Robison (1986) studied the pattern of capitalist development in Indonesia by focusing on big business enterprises in Jakarta; Mas'oed (1989) attempted to understand how the Indonesian political structure affected the national economy; Muhaimin (1991) studied economic policies by concentrating on economic-cum-political actors; MacIntyre (1991) studied the roles of business associations in four industrial sectors and their relation to politics; Hadiz and Robison (2005) examined how political authority, which was in shambles immediately after the fall of Soeharto, managed to revive and recapture economic resources. All of these studies focused on tycoons who owned large-scale businesses. Moreover, most of these studies are Jakarta-centric. While large in asset size, the tycoons are nonetheless a minority in the total number of business actors in Indonesia.

There are only a few studies that focus on the role of business actors at the local level. Most of these have focused more on the behaviour and strategies of local business actors in respect to development, religion and

socio-economic change. They only explored the relationships with local politics in passing. To mention a few: Abdullah (1994) studied the behaviour of Muslim entrepreneurs in Jatinom Klaten; Rutten (2003) studied rural capitalists in three countries including in Klaten, Indonesia; Achwan (1997) examined the 'social embeddedness' of weaving business actors in Pekalongan, Central Java; and Purwanto (2004) conducted research on the garment industry during the 1997 economic crisis in Central Java.

When Indonesia underwent a decentralization project in 2001, politics at the local level became vibrant. Researchers on politics in Indonesia shifted attention to the local level. Among them are Hadiz (2004b), Hidayat and Van Klinken (2009), Erwiza Erman (2010), Soesilawati (2007), Van Klinken and Aspinall (2011). Generally, these historians and political scientists argue that, after decentralization, local actors perceived the shift in power as opportunities to increase their status and wealth. They do not pay a lot of attention to analyzing the mutual dependency of business and politics. Economists also started studying the business environment at the local level within a frame of local investment (Kuncoro 2006; Brodjonegoro 2004). They suggest that the impact of decentralization has been negative for business because it has increased corruption, red-tape bureaucracy, kickbacks and extortion perpetrated by political actors against business actors.

The characteristic of business in a provincial town is the large proportion of small-scale businesses followed by a smaller group of medium-scale ones. Their businesses operate within networks of families, friends and neighbours living in the town, which they have known all their life. Thus, business and society in a provincial town are socially embedded. For local politicians the same applies. The best way to fully grasp the socially embedded nature of economics and politics in a provincial town is to apply an ethnographical technique, not relying on statistics as economists would do nor on formal interviews as is the common technique used by political scientists.

To sum up, I will not focus on tycoons at the national level, but on the small entrepreneurs living in the provincial town of Pekalongan who are significant both in number and in the contribution they make to the

Indonesian economy. This study hopes to learn how the economy at this level operates through understanding the everyday life of these small- and medium-sized entrepreneurs and how economic practices are embedded in the social and political networks of provincial people. Thus, I hope to reveal the social embeddedness of the economy (Granovetter 1985). Since the practice of politics is situated in the context of tight social and political networks of provincial people, I will also frame the social embeddedness of the relationships into the specific local and regional context.

Chapter One is a literature review on the state-business relationship, and in Chapter Two I describe the setting of state-business relations in Indonesia, providing a survey of changes in macroeconomic policies in Indonesia since independence. Chapters Three and Four present a socio-economic profile of the town of Pekalongan and its recent changes in administrative and political set-up. Chapters Five and Chapter Six describe the business strategies of the entrepreneurs in the batik industry (Chapters Five) and the construction sector (Chapter Six). Both chapters focus on the consequences of changes in government policies over the past few decades, in particular the period following the abolition of state protection in the case of the batik sector (early 1970s), and the introduction of deregulation, in the case of the construction sector (mid-2000s). Chapter Seven provides a summing up of the empirical findings and places them within the wider discussion on state-business relations.

# Chapter 1

# CHAPTER 1
# REVIEW OF STATE-BUSINESS RELATIONS

This chapter explores the literature on state-business relationships with particular attention to Indonesia. In addition to that, it gives an overview of state-business relationships in provincial Indonesia, the focus of my research. At the end of the chapter I explain how the research for this thesis was set up and conducted.

## 1. State-business relations in Asia

The intricate relationship between the state, the economy, development, the market and the business sector has been the subject of academic debate for decades (Yoshihara 1988, McVey 1992, McVey 2000, Leys 2006: 111). The political changes and the increasing integration of the Indonesian economy in the global world raised new questions about the relationship between business and politics in Indonesia: how is the relationship influenced by liberalization and recent political shifts; have there been shifts in the business-politics relationship; and if so, how can these shifts be described?

I will try to answer these questions by starting with an overview of the major historical debates on state-business relationships in Asia and Southeast Asia, especially since 1945. These debates can be divided into four periods, each with a different focus: the interventionist state trying to fulfil the

hopes of the newly independent nations; the authoritarian developmental state that oversaw a great rise in economic growth in Asia; the crony state in which informality flourished and the crisis hit; and the regulatory state in the so-called 'neoliberal' or 'globalization' era.

## a. The interventionist state in postcolonial Asia

After the end of World War II many countries in Asia[4] declared their independence from their colonial masters. After independence the difficult task began of trying to fulfil the independence dreams of a better future for their people. The economies of these new nations were based on exports generated by a large native workforce in extractive activities, such as agriculture and plantations. The industrial sectors were limited and mostly belonged to and were controlled by the former colonizers (Robison 1986: 3). The majority of the people were uneducated, except for a handful of elites (Ibid.). Social and political life was fragmented along ethnic, regional and religious lines—in Indonesia (Lindblad 2010), in Malaysia (Alavi 1996), and in India with its caste system and caste inequality (Brass 1994). Because of the huge social, political and economic differences, the state was supposed to be the main actor that could bridge the gaps among social and political groups. It was seen as the only actor capable of implementing programs in the economic field to help achieve the expectations generated by independence.

To overcome social, political and economic problems, many stemming from the colonial legacy, economic development was deemed not only a dream but also essential. Such development, so the argument went, would distract attention away from the huge social problems and help establish 'social order' and stability; this in turn would facilitate the economic development agenda (Huntington 1968, King 1982, Escobar 1995). To achieve development, there were two alternative routes available with the state playing a central role in both: capitalism or socialism—a 'market oriented' or a 'planned economy' model (Fine 2006: 101). The first model was influenced by Keynesian ideas, giving the state a strong role, and emphasized

[4] I refer to a selection of countries in Asia for discussion here, namely, Indonesia, India, South Korea, Malaysia, the Philippines and Singapore.

modernization, economic growth and the provision of welfare. This is a model of the liberal school of economics, whereby development progresses by gradual steps: starting with a 'traditional society', it needs to develop 'preconditions for take-off', then reach 'take off', followed by the 'drive to maturity', with the final step in the process being the achievement of 'the age of high consumption' (Rostow 1960; Brenner 1977: 33-34). The essence of this model is to achieve economic growth, which is preconditioned on competition among economic actors, and a high degree of saving and investment. The theory assumes that once industrialization is achieved other sectors will also experience progress through a 'trickle down effect' (Rostow 1959: 4-11). The second model emphasizes distribution of wealth, instead of economic growth, and the restraining of the market. The state is central to implementing these policies. Many countries that followed the first model also followed some of the ideas of the second model, such as the nationalization of the assets of the former colonizer, as happened in Indonesia (Dick et al. 2002). However, for reasons of comparison with Indonesia, in this review I will discuss only the countries which followed the first model, excluding Asian countries which adopted communist or Maoist ideologies.

In the early stages of development, during the first years after gaining independence, states were interventionist, populist, and nationalistic. After some years many Asian states set specific types of industrialization policies; the first being Import Substitution Industrialization (ISI). The state intervened in the economy by subsidizing selected sectors in an attempt to eliminate foreign dependency and create greater self-sufficiency. It protected local industries from cheap imports, so it was a form of trade protection. India launched its first nationalist economic program to establish economic independency from its former British colonizer in the early 1950s (Brass 1994). In the early years after its independence, Malaysia developed the First Malaya Plan (1956-1960) based on an ISI approach (Jomo 1988, Alavi 1996).

Indonesia launched its first systematic nationalist economic program, the 'Economic Urgency Plan', in 1951 in an attempt to establish an independent economy (Glassburner 1962: 123). The Indonesian state also took control of strategic industries, such as defense plants, chemical industries,

cement plants, power plants, waterworks, and transportation companies (Sutter 1959: 775). In the period of 1951-1956 the state also enacted the populist 'Benteng Program' aimed at protecting small and medium-scale businesses owned mostly by native or indigenous (pribumi) entrepreneurs. These populist programs were launched to help curtail political unrest among regional influential elites who were not happy with state policies in the early years of independence.

### b. The authoritarian developmental state and the rise of Asia

The dominant role of the state in economic development in the developing countries of Asia increased in the ensuing years. In some instances it was a result of the political changes that came with a natural regime transition, for example, in South Korea with the transition of power from Syngman Rhee to General Park in 1960 (Kim 1999: 443). In others it was the result of conflict, such as in Indonesia in 1965, when Soeharto deposed Soekarno. From the 1960s to the 1990s, many developing countries in Asia followed a 'developmental state' model, described by some scholars as the combination of a strong state in determining economic policies and authoritarian-centralistic policies in the political arena. The developmental state model has often been credited with helping Asian countries achieve economic success (Amsden 1989, Johnson 1982, Fine 2006, Allan and Thomas 2000); although it also has detractors who deem the model the source of economic decline (Yoshihara 1988).

In Asia the 'developmental state' model of economic development acquired its own trajectory. In many countries, development was deemed the key to serving not only economic but also social goals. Development was viewed more as a shared belief, even an ideology (Peet and Hartwick 2009: 63). As a consequence, citizens who were against the development model chosen by the state have often been accused of being opposed to state ideology, which was often a dangerous political stance.

Political economists point out that development and the practice of capitalism has not been the same everywhere. Many argue that the particularity of capitalist development is unavoidable because of the different ways in which institutions and social practices that constitute capitalism are man-

ifested in different structural and historical settings (Robison et al. 2000: 10; Rodan 2001: 10). The separation between state and market is central in the way that the market works in European countries. The assumption that the state and the market are separate entities ignores structural differences and the fact that in many Asian countries 'markets are a creation of government and politics' (Hewison 2000: 193).

In several late-industrializing countries in Europe, the state and market have also not been separate entities. The example often cited is that of Germany and Russia after World War I, where the state played a major role during the early phase of industrialization. In that period, there was a big gap in economic growth between these late-developers and other European countries (Polanyi 1957; Gerschenkorn 1962; Hirschman 1958). To close the gap, the state took the lead in conducting development, because individual capitalists and private institutions lacked the capacity to take the risks involved in investment in modern technology (Leftwich 1995: 403).

The Asian 'developmental state' can be viewed as one variety of this model that the late-industrializing countries followed. However, there are differences between these late-industrializing countries in Europe and the developing nations in Asia. In the 'late-industrializers' in Europe, development was about economic activities, that is, strategies to increase growth. In the Asian 'developmental state' model, economic, social and political goals were moulded together in a complicated way to achieve the desired economic development, as well as national political stability and social support of its citizens.

It is useful here to consider some important terms relevant to the discussion of the developmental state model. In the economic field, 'development' is defined as "organizational complexes in which expert and coherent bureaucratic agencies collaborate with organized private sectors to spur national economic transformation" (Doner et al., 2005). Development in this model also incorporates social dimensions, such as the support of a cooperative civil society that will not challenge or interrupt the process of economic development (Peet and Hartwick 2009: 63). This means that the economic and political dimensions of development are one package. The Asian 'developmental state' had to strive to achieve, simultaneously, de-

velopment in the social, political, and economic dimensions; therefore it not only had to plan but also set and implement economic policies. Usually these countries following the developmental state model established a central board for planning economic development, for example the Ministry of International Trade and Industry (MIT) in Japan (Johnson 1982), the Economic Planning Board in South Korea (Weiss 1998: 51), the Economic Development Board established in 1961 in Singapore, and in Indonesia the National Development Planning Agency, *Badan Perencanaan dan Pembangunan Nasional* (Bappenas).

The state intervened to ensure that all economic structures supported economic policies, for example, by controlling the financial sector and setting foreign exchange rates and tariffs on goods. In order to do so, it kept industrial wages low. This was the case for many years in South Korea (Amsden 1989). The large surplus of labour in the countryside was used to feed a growing urban industrial work force (Ohno 2008). The state also protected selected sectors of industry by offering subsidies as an incentive for domestic entrepreneurs. Developing infrastructure was equally important for promoting local efforts. States chose to develop industries oriented towards export (Export-Oriented Industry); that is, they focused on producing goods in which they had a comparative advantage (Linneman et al. 1987).

In order to maintain stability, political regimes in Asia have tended to curb democratic forms of political participation and expression. The strong political leaders often came from military backgrounds. South Korea, for example, was led by General Park Chung-hee (1963-1979) and later by General Chun Doo-hwan (1980-1987). They both successfully stimulated economic growth while co-opting, controlling and limiting potential opposition (List-Jensen 2008). Indonesia's Soeharto was a retired military general. He controlled the activities of political parties, restricted the activities of civil society organizations and forbade political activities at the village level. In Malaysia, Mahathir Mohammad enacted the Internal Security Act (ISA) limiting political freedom. The state party, the United Malays National Organization, UMNO, has dominated politics since the 1970s, suppressing any opposition. The same applies to Singapore, where the People's Action Party (PAP) has been in power since the birth of the country in 1965, "ruthlessly

suppressing opposition" (Mauzy 2002: 1).

A combination of progressive economic development policies and strong control over civil society activities, resulted in an unprecedented rate of economic growth in many Asian countries, between the 1970s and 1990s. These countries were heralded as 'Asian Miracles', or 'Asian Tigers', because of their successful economic development. In 1994, economists from the World Bank labelled some of these countries as High Performing Asian Economies (HPAEs)—South Korea, Hong Kong, Taiwan and Singapore—or the Newly Industrializing Countries (NICs)—Thailand, Malaysia and Indonesia (World Bank 1994). This remarkable achievement in a relatively short time span contrasts sharply with Gunnar Myrdal's earlier notion of *Asian Drama* (Ohno 2008) through which he described Asian societies as trapped in dire poverty.

Because of the authoritarianism that comes with economic development in the 'developmental state' in Asia, the Asian model is often labelled an 'authoritarian developmental state' (Johnson 1982). Appreciation of the economic achievement of these countries is accompanied by criticism of its leaders: there is rapid economic growth but low quality of democratic life. The response of the leaders is to emphasize the uniqueness of economic development in Asia and to argue that the Asian development model is different from the European model. They frequently defend their authoritarianism by referring to 'Asian values'. In many Asian countries these values predominantly relate to Confucianism. List-Jensen (2008) summarizes the essential Confucian values that underpin the South Korean developmental state: emphasis on hierarchy; the importance of family; the need for social harmony; and moral, political and economic order (2008: 11). Similar values are considered important throughout the whole Asian region. Asian values are used to justify the state's authoritarianism, but as 'Asian values' have also helped to foster cronyism, these values have also come to be seen as one of the causes of recurring problems (Perkins 2000: 232). Part of the problem is the fact that political participation by citizens acting as watchdogs to control the state is restricted.

Another point to note is that state-business relationships in the developmental state model took on different manifestations in various parts of

Asia depending on what the state emphasized in its goal of achieving economic development: large-scale domestic enterprises and global multinational corporations, such as in Singapore (Kang 2002b); small-scale enterprises, which was the focus in Taiwan; or a combination of the two as in South Korea (Kang 2002a). Thailand and Indonesia prioritized large-scale business and development at the national level (Hewison 2000, Robison 1986). Whatever the approach of the state, it still had a dominant role in business and most businesspeople obtained state facilities to help operate their businesses. They were able to obtain these facilities because they had access or close proximity to top political leaders, such as the president, and members of the military or the ruling party. This confirms the notion that accessing state resources through informal practices, as I have already indicated, is endemic to doing business in Asia. A further consequence is that it increases the likelihood of corruption.

### c. The crony state and the Asian crisis

One aspect of state-business relations which needs to be singled out and which deserves special attention here is what is generally called 'cronyism', the dependency of business on political connections. 'Crony capitalism' is the form of capitalism under which these practices dominate. Kang (2002a: 441-439) provides a broad description of 'cronyism' as gaining economic advantage by: "using or taking advantage of family and personal relationships with those in political authority; engaging in bribery and corruption; colluding and establishing patron-client relations; and making decisions based on grounds other than pure economic efficiency". Anna Kruger, an economist at the World Bank, has warned of the dangers of cronyism in Asian economies before the economic crisis, which occurred in the late 1990s (Kruger 1992). She suggests that cronyism operates in three different ways: the ownership of business or its operation, the ownership of shares in state-owned enterprises, and by favouritism in being awarded government contracts (Kruger 1992: 2). According to economists, the problem with crony capitalism is that the profit goes into the hands of a few who do not reinvest in order to gain more profit, as capitalism proper is supposed to work (McVey 1992: 8). It fosters 'rent-seeking'—activities with

the aim of gaining personal profit and advantage (kickbacks, extortion and monopolies) rather than activities that create new wealth (Khan and Jomo 2000; McVey 1992: 8).

Family members and people with connections to those in power and their protégés are able to benefit from these connections to the advantage of their business activities. The Chinese, known for their good business sense, are a minority in many Asian countries, but they have often been able to flourish in this environment. Although the developmental state is known as having an environment of insulated policy-making, clientelistic and sectional interest still work (Weiss 1998), especially when the government selects the economic partner who would run the development programs. Crony capitalism thrives in a context of strong state power. Indeed, states in Asia have wide-ranging powers: they are backed by military forces and select their partners to conduct development programs.

Political economists working on Asian politics have found that cronyism flourished during the highest achievements of the developmental state in the late 1980s. Yoshihara (1988), for instance, described in his book, 'The Rise of Ersatz Capitalism in South-East Asia', how strong states in Asian countries make use of their powers to facilitate the entry into business of family members, political allies and friends. He also suggested that capitalism in Asia is not genuine, but rather a fake one, because it had emerged and flourished with state support, rather than through the hard work of entrepreneurs as occurred in the European experience. Earlier, Robison (1986) labelled Indonesian economic development 'bureaucratic-capitalist development', as the state apparatuses (in the bureaucracy and the military) are the key actors in development. Hutchroft in his study of the Philippines describes similar practices of cronyism, with the Marcos family as an example, labelled by him 'booty capitalism': "the plunder of state resources by social forces, with a firm economic base outside the state" (1998: 21). He concluded that the severe cronyism in the Philippines did not contribute at all to national economic efficiency. Thus, in their conclusions, scholars were predicting that the economic success of the Asian developmental state would be temporary. According to them, history proved that cronyism thrives only as long as there is state protection of those connected to the political actors

(Evans 1989; Peet and Hartwick 2009).

However, development agencies and practitioners in donor institutions, such as the World Bank, ignored these critical assessments, because of the impressive economic achievement of the Asian countries. They tended to accept the line of argument from Asian leaders about the 'uniqueness' of the Asian model of development. The donor agencies positive assessment of crony states in Asia usually relates to the fact that a rent-seeking economy, a by-product of cronyism, has a positive side as well. Khan and Jomo (2000: 3) argue that there are many types of activities that can be classified as rent-seeking; many are harmful for growth, but others are essential for efficiency and growth. In relation to Indonesia, MacIntyre (2000: 207) focusing on so-called 'off-budget' fiscal activity in Indonesia, arguing that the pattern of rent-seeking in Indonesia under Soeharto helped the economy to operate more effectively and was not a great drain on economic efficiency.

When the economic crisis hit Asia in the late 1990s, donor agencies, which used to praise the 'uniqueness' of the Asian model of development, changed their assessment, coming to the exact opposite conclusion. Now they blamed state domination in the business sector as the cause of the problem, because it distorted the economy. They turned to neo-classic arguments on efficiency in the economy arguing that "all markets work perfectly and instantaneously, that all economic actors predict the future as well as possible, and that all government intervention is futile" (Fine 2006: 6). They suggested that to overcome crisis, the role of the state should be limited and the market should receive more freedom. As a result, here we see the emergence of the free market (neoliberal) doctrines in regard to developments in Asia.

### d. The regulatory state in a globalizing Asia

After the Asian crisis that started in 1997 there was much debate about the role the state should play in helping to solve the crisis. The crisis occurred at a time of rising belief in neoliberalism and globalization, which favours the market over the state. Many analysts argued that there was 'too much state intervention' and that the role of the state vis-à-vis the market should be limited. This argument was adapted mostly by liberal economists

(Weiss 1999: 320). The other group of economists suggested the opposite argument that the Asian crisis occurred because of 'too little regulation by the state'. The notion of 'too little state role' refers to "laxity of regulatory control over capital inflow consequent over financial liberalization" (Ibid.). They contend that to create an effective market, necessary for solving the crisis and also for smooth integration into the global economy, an environment should be created where regulations and the enforcement of rules operate. This suggests a strong state model not a weakened state; though one where the functions have changed and are limited to basic functions, such as regulation and law enforcement, to ensure and protect the freedom of the market. The former vice president of the World Bank, Joseph Stiglitz, a well-known economist, was in favour of this idea, as Weiss (1999) explained. The history of the discussion among agencies about the sort of state needed in Asia is worth following a little further, as it helps us to understand the state as it functions in many places in Asia.

The Asian economic crisis started in mid-1997 with the devaluation of the Thai baht, and the crisis quickly spread to other countries in Asia. The impact of the crisis varied (Hewison 2000: 201). The worst affected were Indonesia, Malaysia, Thailand and South Korea. Indonesia's currency lost about 80% of its value against the dollar. Malaysian conglomerates, till then protected by the state, suddenly had to pay back external loans; many suffered severe asset reduction, lost their profits and became insolvent (Khoo 2000: 223). The leading national banks in Thailand belonged to cronies of the state and collapsed; fifty-six financial companies were liquidated (Hewison 2000: 203-204). South Korean conglomerates (*Chaebols*), such as Hanbo, Kia, and Jinro, went bankrupt (Moon and Rhyu 2000: 79, 83). Asian countries with high levels of cronyism entrenched in their economies healed slower than countries with low levels (Kang 2002b). In this bewildering situation, some economists, like Beeson and Robison (2000: 9), pondered 'The end of Asian capitalism'.

The countries in crisis turned to the IMF for assistance. This was the moment when strong states in Asia 'surrendered' to the donor agencies, known for their support of the primacy of the market. The donor agencies expected Asian states to play the role as a regulatory body in managing the

liberalization of the economic system. Thus there was still a role for the state as 'regulatory body,' but the state should function differently from the way it did before the crisis. In Thailand, the IMF focused on restoration of confidence through a tight monetary policy, restructuring the financial system through privatization and a return to the international capital and financial market. Although Malaysia did not ask for loans from the IMF, there were structural adjustments that included a reduction in federal government expenditure, postponement of mega projects, and deregulation of the tax and banking system (Khoo 2000: 225). Basically, all the implemented measures meant a return to support for the open market: free competition, liberalization of the economy, and deregulation (Jayasuriya and Rosser 2001). The reforms included making access to Asian markets easier for foreign businesses as well as increasing integration of trading activities among Asian countries through various kinds of agreements under ASEAN, and other regional-based agreements.

This opening of markets on a global and regional scale was an expansion of globalization, the impact of which had already been experienced in most Asian countries. Held defines globalization as "...the stretching and deepening of social relations and institutions across space and time such that, on the one hand, day-to-day activities are increasingly influenced by events happening on the other side of the globe and, on the other hand, the practices and decisions of local groups or communities can have significant global reverberations" (Held 1995: 20). In the context of economic activities, globalization is equated with the increased role of the international market. Dahl suggests that globalization has brought about two phenomena which have led to the changing role of the state, namely: the connections between political, economic and social activities are no longer limited to the local or national level but have been expanded to include the global; and at the same time there is increased intensification of interconnectedness between and within state and society (1995: 21). In many countries across Asia, globalization had led to a decreasing role of the state, even before the crisis.

There were two main opinions about the impact of the economic crisis and globalization on the role of the state in relation to the market. Some

scholars argued that the economic crisis and globalization would minimize the role of the state. They claimed that the state would be 'hollowed out', and there would be a "leakage of authority from the state to the international market" (Rhodes 1994: 138). The term 'hollowing out of the state' covers multiple meanings: 'privatization', 'loss of functions by central and local government departments to alternative service delivery system (such as agencies)'; and 'limiting the discretion of public servants through the model of so-called New Public Management' (Ibid.). These scholars assumed that in the face of the growing strength of the market due to increased globalization, the power of the state would be minimized; the state would become a neoliberal state, subordinate to the market.

There was an opposite opinion about the impact of globalization, namely that the state would be strengthened not 'withered away' by the market. Indeed Pirie (2005: 27) suggests that the dichotomy between the state and the market should be ended because they need each other. The market cannot function automatically, and it depends largely on the existence of strong legal institutions—a system of market-based financial regulations, strong bankruptcy and accountancy laws, and a corporate governance standard. All of these can only be provided and assured by the state.

Other scholars have attempted to bring together the discussin state-market relations under one conceptual umbrella, and not in contradiction. These scholars label this model of the state, 'regulatory state'. The term 'regulatory state' was originally used only in the US context, with a particular meaning.[5] Later, Majone (1997) applied it to the European Union, in which he described the European Union as a supra state under a 'regulatory regime'. Ever since, the term has been used widely by academics in state theory. Despite constant reframing of the term 'regulatory state' and different ideas among scholars about what it means, they all agree that, in general, the notion refers to the "type of state concerned to make the market work better and thus to compensate and/or substitute for where the market fails" (MacGowan and Wallace 1996: 563). Levi-Faur's (2011) adds another definition of it, which covers rule-making, monitoring, and enforcement. Both Weiss

[5] The term originally referred to administrative structures and specialized independent agencies which developed in the 1960s in the United States Federal Government (Levi-Faur 2011: 4).

(2005) and Levi-Faur (2011: 14) agree that state regulation is not a retreat by the state away from the market, rather the state taking more control of the market by setting the rules.

After the crisis in Asia, some scholars adapted the notion of regulatory state as a model of how the state should be. Donor agencies applied the same idea. Some even suggested it as a way to solve the economic crisis (Weiss 1999, Jayasuriya 2001). In the context of Asia, the idea of the 'regulatory state' experienced another adjustment, from the experiences in the US and Europe. In the regulatory state, the essential role of the state remains, but it operates as a regulator and no longer as investor, planner, and implementing agency of economic policies, as it used to be during the developmental state era. These scholars argue that the regulatory state should operate "not as a sovereign power or economic manager in the traditional sense, but as a basic foundation of legitimacy and the representative authority to powers above and below the national level" (Hirst and Thompson 1996). At a practical level, Jayasuriya (2001: 384) suggests four principles that should guide the regulatory state: first, the separation of policy from operation through contracting out; second, the creation of new and autonomous regulatory institutions, such as an independent central bank; third, an increased and strengthened role given to the regulator of regulations, that is to set up the institutions and how they should operate; and fourth, the adoption of a rules-based mode of governance in economic and social policy areas, thereby removing the misuse of discretionary powers. These four points were, in fact, also the basic ingredients of the institutional model offered by the donor agencies as a way to find a solution to the Asian economic crisis.

In Indonesia, the reforms that followed the crisis had a regulatory spirit as well. The reforms mostly involved privatization, liberalization, and the establishment of new institutions (including rules and regulations) to control the economy. To give an example, after the crisis, the oil and gas sector was liberalized through the enactment of Law No. 22/2001. Formerly it was the state-owned company Pertamina, known for its notorious corruption, that used to act both as regulator as well as investor in the extractive industry. These roles were separated within the company. The regulatory function is

now in the hands of the ministry of energy, mining and mineral resources. In addition, this law provides a stronger legal basis for competition among investors, including the private firms (mostly global corporations) in both oil and gas production and distribution (Soesastro and Atje 2005: 28). Since then, Pertamina needs to compete with these firms in an open bidding process. The bill also sets an independent unit to regulate oil and gas exploration.[6] Another example of the new regulatory functions of state agencies after the Asian economic crisis is the creation of independent institutions to regulate banking (Pirie 2005, for South Korea; Hewison 2000, for Thailand; and Hadiz 2007, for Indonesia). The idea is quite similar: to establish an independent institution that can regulate the sector as a referee which offers free play to companies and entrepreneurs.

The idea of the regulatory state being implemented in Indonesia is also regarded as a way to curb bad governance, including cronyism, in the Indonesian economy. By separating the roles of regulatory units and economic players, it supposedly would dissolve all kind of bad governance between state's apparatuses and business actors, such as corruption, kick-backs, and bribery, which has lasted for a long time.

These reforms in Indonesia have been met with resistance from politico-business networks that used to be linked to Soeharto and military power (Robison and Hadiz 2004). The old 'cronies' have managed to consolidate their economic interest by re-using, contextualizing and adapting old strategies. The regulatory state as a model for the state in Indonesia after the crisis also met with resistance. To come back to the example of the regulatory unit in the oil and gas sector, namely the Regulatory Committee for Oil and Gas (BP Migas), political actors, such as political party men, involved themselves in the committee, seeing it as a way to get a share of this lucrative sector, by becoming brokers for foreign investors. Also, in the presidential election in 2014, all political players needed to finance their political activities, and they looked for resources to tap. Thus, the model of the regulatory

[6] BP Migas (Committee for oil and gas) was the regulatory body in the sector in the upstream stage of the oil and gas sector. It was abolished in 2012. However, the regulatory unit in the downstream stage still exists. It means the regulatory function in the sector of oil and gas remains.

state, in the context of Indonesia, meets with persistent opposition from this oligarchy and other established politico-business networks.

The foregoing discussion on state-business relations is situated at the national level. It is generally assumed that similar processes operate at the provincial level. This assumption has not yet been empirically tested, as little research on this topic has been done so far at the provincial level. Historically, despite the unitary nature of the Indonesian state since independence, relations between political actors at national and local levels have often been painful. Jakarta's instructions have not always been followed by lower levels of government. During the Soekarno era, not long after independence, rebellions occurred in West Sumatera, West Java, the Moluccas and North Sulawesi. They were mostly protests against the central state demanding a greater share in the distribution of resources (Amal 1992). It was only during Soeharto's presidency that his authoritarian regime managed to gain control over provincial politics, and the whole archipelago was forced to follow the pattern set at the national level. Since Indonesia decentralized in 2001, giving administrative power back to the district (*kabupaten*) and city (*kota*) level, things are changing again. The reforms make it hard to maintain uniformity, and thus regulations issued by the state at the national level are executed differently, or perhaps even aborted, at the local level. Thus, given this history, we should not be surprised if state-business relationships at the provincial level, after decentralization, operate differently in comparison to what happens at the national level. The focus of this thesis is to find out if, how and why this happens. For that reason, in the following section, we look at the intricate relationship between state and business at the provincial level.

## 2. Understanding business at the provincial level

Much of the above discussion leads us to conclude that in Asia, particularly with regard to the relationship between politics and business, 'the state' must be defined differently than the way political scientists usually define it. Most of them apply the term in a Weberian sense — as an autonomous entity with administrative apparatuses and legitimacy to conduct coercive action (Almond 1978; Stepan 1978; Skocpol et al., 1985). In a more

operational sense, the state is often equated with 'government' and defined as "the collective set of personnel who occupy positions of decisional authority in policy formulation" and "the administrative apparatuses with a coherent totality" (Krasner 1984: 234). In these definitions it is assumed that the state will operate according to written rules and regulations, such as the constitution and the bills it has enacted. That is, it will operate in a formal way and apply its rules and regulations univocally in all circumstances, treating all people and cases equally.

However, informal personal relationships can play an important role in the way the state operates and how policies are executed, as we have seen, for instance, with crony capitalism. Policies are thus not always practiced in the way they are prescribed. Moreover, according to Cleaver (2002), Benjaminsen and Lund (2002), and Helmke and Levitsky (2004), informality is an inherent part of formal, state organisations. This does not only apply to national levels and departments as described by Lund (2006) and Bierschenk (2010) but even more so to lower government offices. The story of the Djunaid family at the beginning of this chapter suggests that informality plays an important role in state-business relations at the district/city level. Moreover, it is also connected to national politics.

The classic distinction between 'formal' and 'informal' in the study of political systems is to some extent rooted in institutional studies, an important subfield of political science. Later, the institutionalist perspective became a separate tradition in political science. It focuses on the study of institutions, "by which structures including schemes, rules, norms and routines becomes established as authoritative guidelines for social behaviour" (Scott 2004: 1). Institutions are generally grouped as either 'formal' or 'informal'. 'Formal' state institutions can be characterized by standardized rules and practices, "encoded in official language and often exercise[d] with the props of modern statehood", whereas in 'informal institutions,' "informal [practices] are more or less grounded in ideas and values embedded in institutions" (Benjaminsen and Lund 2002: 2).

This neat dichotomy of types of institutions, marked by parallel practices in each type of institution, has been questioned from several angles. In the following, I will discuss some of the arguments of key authors. Helm-

ke and Levitsky (2004), for example, argue that informal practices do take place in formal institutions, such as the state. They collected examples of practices of 'informality' in state arenas. Examples are government-business relations in Japan; informal contacts and networks to obtain goods and services; legislative 'folkways' practiced by members of the US Senate; and consociationalism, a particular type of democracy that is based on consensus among social groups that are usually delineated by ethnicity or cultural distinctiveness. In addition, some political scientists extend the notion of 'informality' to the institutional level, where 'informality' is regarded as the "unwritten rules apart from constitutions", and the "informal processes of political practice" (Helmke and Levitsky 2004: 725). These scholars have explored how informality relates to routine practices of state institutions and how it is integral to the arena of the state itself. However, they have not touched upon informality as a way in which state apparatuses (e.g. business actors) accomplish things in relation to society.

Cleaver (2002) also rejected the dichotomy between formal and informal, as well as the simplistic depiction of parallel practices in each type of institutions. She argues that social dynamics (generally regarded as informal) influence the way institutions work, including the state. From her perspective, the state does not operate in an isolated manner, is not separate from social practices, but rather embedded within them. According to Cleaver, the practice of informality in the state arena can thus hardly be separated from the daily and social practices of people both within the state institutions as well as in society at large. In the same line of argument, Olivier de Sardan (1999: 52) describes the practice of political processes (including corruption) as being "socially embedded in the logic of negotiation, gift-giving, solidarity, predatory authority, and redistributive accumulation".

Olivier de Sardan's description of African states in everyday life shows parallels with the functioning of the state in Indonesia. In Indonesia, for instance, it is very common to give presents to higher ranked persons as a way to say 'thank you'. During religious festivals or family celebrations such as children's weddings, gifts pile up in the houses of public figures (i.e. the mayor, the district head, the head of the office, etc.). These practices are not just traditional ways of paying tribute and reaffirming relationships, loyalty

and bonds of solidarity between the givers and the receivers; they can also be regarded as investments: If you have received a gift at some point, it will be hard to refuse to grant a small favour later on.

State theorists, such as Migdal, suggests a similar point of view as Cleaver on the importance of the position of the state in relation to society. He coined the term 'state-in-society' (Migdal 2001). His argument of the 'state as a socially embedded entity' quickened the debates on the need to go beyond the informal - formal binary. Cleaver and Migdal suggest that the categories of state and society need to be re-examined (Gupta 1995: 376) in particular by focusing on the 'process of interaction' between them. It means, according to them, and also in line with Olivier de Sardan's argument mentioned previously, that we should pay attention to the workings of everyday politics: face-to-face exchanges between individuals in formal and informal settings, as well as to the micro politics of everyday life. It also allows the state to be "disaggregated by focusing on different bureaucracies without prejudging their unity or coherence" (Gupta 1995: 375).

The problematic analytical division of state and society, which is often blurred, has been highlighted by scholars working on Africa. Chabal and Daloz (1999: 4) argued that there has never been any separation between state and society, because "state has never been emancipated from the society". Lund's study (2006) shows how state and society actors compete to provide public authority, a function that is traditionally regarded as something belonging exclusively to the state. As a result of this competition, some society institutions become state-like institutions. Local politics (including at the village level) are also marked by "… flexibility and malleability, their mutual interrelations, areas of competence and form of organizations are barely defined let alone documented" (Lund 2006: 158).

Because of the mixture of the two types of institutions in one country, both state and non-state institutions perform roles traditionally thought to belong to the realm of the state. Lund suggests that society-based institutions (mostly at the local level) have a 'twilight characteristic', meaning they make decisions of a public nature, while at the same time being in opposition to the state (Lund 2006: 687). Examples are a local leader who claims himself a lineage chairman, thereby demanding state recognition; or

a church that defines itself as an NGO, implicitly bringing the state into the local arena in a convoluted way. Furthermore, these local institutions exercise power and authority using implicit and sometimes explicit references to the state, by, for example, using formal language, yet simultaneously vindicating their non-state status. There are at least two main explanations for these blurred boundaries, including the practice of informality in politics (Chabal and Daloz 1999: 1; Bierschenk (2010). First, the historical explanation. Bierschenk (2010) studied and elaborated on bureaucracy in West African countries and argued that the complex nature of the state is 'unfinished' and part of a 'formation process'. He labelled contemporary West African bureaucracy as a 'sedimentation of colonial and postcolonial experience' (2010: 6-7). Government institutions are a mixture between colonial legacy and post-colonial institutional crafting. Bureaucracy during the colonial era was institutionally feeble (Chabal and Daloz 1999: 2), and this feature of bureaucracy was passed when independent countries were born.

The second explanation for the blurred boundaries is in the fact that the institutional designs are brought by international donors who promote democracy and good governance agendas. The models promoted by donors assume a rational model of institutions, which means actors are regarded as "entrepreneurs who rationally utilize social capacity to craft institution" (Cleaver 2002: 14). In the same line of argument, on the influence of international donors in research on local institutions, Bierschenk and Oliver de Sardan (2003) suggested that the 'democratization process has reinforced the pre-existing, hybrid and composite form of local government', as well as 'heightened the existing (political) fragmentation and informalisation of political practices' (2003: 146). Processes of democratization and decentralization have complicated political games at the local level, including the increased use of informality as a way to play politics. Lund also suggests that the lower the unit of politics is, the higher the degree of fuzziness (2006: 158). This is because "…[There is] an extreme complexity and fluidity of local politics, characterized as it is by a myriad of institutions and decision making loci (traditional, neo-traditional, informal and formal) which do not have strictly defined competences and lack clearly organized hierarchical relations of subordination and dependence" (Bierschenk and

Oliver de Sardan 2003: 166). Informalization of politics can have a positive contribution as well. State apparatuses (bureaucracies) which work informally, especially the juridical sector in Benin, Africa, would not work without informality. "…[I]nformalization and privatization are necessary as a source of relief for the system. Without these practices, the legal system would function even less effectively than it already does; they actually prevent its complete collapse" (Bierschenk 2008: 105). In his other works on West African bureaucracy, Bierschenk (2010) concluded that informal practices in the educational and judicial sector are required "if the apparatuses is to function at all" (2010: 15). He also suggests that informal practices cannot be equated with corruption (illegality), although they can become a gateway to it (Ibid.).

Here we are getting close to the core of this thesis on the practice of informality among business and politics. In the context of Indonesia, many case studies in the book of Van Klinken and Aspinall (2011) suggest how informality can be socially beneficial. For instance, severe crime can be reduced because police officers use their informal networks to access networks of criminals to control crime. And vice versa, also for poor people, engaging in informal relationships with government officials can be beneficial. Poor and marginal migrants can only survive with their small business due to their informal relations with the local police officers (Nooteboom 2011: 225).

I need to emphasize that this thesis is not about institutional forms ('formal' and 'informal'), but rather about informal practices taking place in state institutions usually regarded as 'formal'. In this thesis, I use the term 'informality' to refer to a) practices in politics and the state arena which go beyond formal rules and processes and which are not officially accorded, written down, or agreed upon, especially in their relation to businesspeople; b) formal rules being 'adapted' or circumvented for different purposes (i.e. to get business done or to favour relatives or old friends) and which deviate from the initial idea of the rule makers; and c) the involvement in the state and society arenas of actors with no direct connection and formal political authority, who nevertheless influence and control parts of the political process and benefit from it, such as religious leaders, vigilantes, and

*preman (mafia like people), etc.*[7] Informality can be associated with activities that are legal as well as illegal.

A particular and relevant field in which informality plays a role is the study of state-business relations. Research on the topic of state-business relationships in Indonesia can basically be divided in two sets of studies. The first set of studies have been mainly carried out from the perspective of the national state; the majority of researchers tended to emphasize the formal operation of the state by examining its policies, how these policies are decided, and what impacts they have had on business. Robison (1986), for instance, studied the pattern of capitalist development in Indonesia by focusing on big business enterprises in Jakarta. Mas'oed (1989) attempted to understand basic Indonesian political structures and how they affected the economy. Muhaimin (1991) studied economic policies by concentrating on protection policies of native Indonesian enterprises. MacIntyre (1991) studied the roles of business associations in four industrial sectors and its formal and informal relations to politics. All these studies focused primarily on national politics, because the Soeharto regime was centralistic at that time. As Jakarta was the place where resources were distributed, it was necessary to understand state-business relations in the capital city. Local politics were not seen as important at that time. In post Soeharto Indonesia, especially after the bill on decentralization was passed in 1999, there has been a need to understand state-society relations at the local level in a more detailed manner.

The second set of previous studies on state-business relationships are presented under different headings and largely belong to the discipline of sociology and anthropology. Examples are studies on ethnicity in business, centred around the question of to what extent ethnicity influences the organization of business (Dobbin 1991, Raillon 1991), or studies on the role of religious and family networks (Abdullah 1994, Achwan 1997, Rutten 2003, Purwanto 2004). They reveal a number of informal practices in the business processes among themselves, such as the importance to have a network for the success of your business, including a network to state apparatuses, but they paid less attention to the real tactics and strategies – and even less to

[7] Reno (1998) speaks of 'shadow actors'.

the practice of informality – of entrepreneurial people attempting to access state's projects at the local level.

In conclusion, many studies in Indonesia have been dealing with state-business relationships, but they focused mainly on the national level. Other studies have focused on the local level, but these studies did not deal explicitly with the state. The political aspects of doing business in Indonesia rarely stood central. In this study, I aim to combine these two aspects, and add the perspective of informality in the state-business relations.

The notion of informality is necessary here because it is impossible to maintain neat categories of formal and informal in the practices of state-business relations in Indonesia. Research during Post Soeharto Indonesia indicated limitations in maintaining formal categories as a research tool. I draw on recent research such as by Hidayat and Van Klinken (2009), who researched how business and political actors relate to each other in Banten province. They found that practices of the state at the local level took place in an increasingly informal way. Another example is provided by Erman (2007), who studied tin exploration on the island of Bangka in Sumatera and found that informality has emerged as a way of doing business, especially among the new political actors who have come on the scene since decentralization. The tin exploration business now faces many problems, which include the role of local strongmen. These cannot be solved by applying formal rules and regulations. Aspinall and Van Klinken (2011) describe how the construction sector in Aceh has become an economic resource for former Aceh combatants who are now members of local parliaments. The way ex-combatants managed to access economic resources again shows that informality in state-business relations is rather the rule than the exception in Indonesia today. Another nine cases in the book on state and illegality that Aspinall and Van Klinken (2011) edited also show how informality works in practice. The book forcefully argues that if we focus on the formal setting, we miss the opportunity to understand how informal techniques of reaching political consensus take place. My thesis will be primarily focused on understanding exactly these processes.

Thus, a focus on informality will help us to gain a deeper understanding of the way politics work at the local level, and particularly how politics re-

late to business. This is relevant because, contrary to dominant narratives on state reform and liberalization of the economy, attention to the ongoing relationships between state actors and businesses helps us to understand how the state, politics, and business work on the local and regional level in Indonesia today.

## 3. Set up of the research

Let me first clarify two key concepts I apply in this thesis, namely 'state' and 'business'. 'State' here refers to an autonomous entity with administrative apparatuses, with legitimacy for coercive action (Almond and Bingham 1978; Stepan 1978; Skocpol et al., 1985). This is a Weberian definition of state, which focuses on state as an organization. In a more elaborative explanation, Krasner (1984: 234) defines state in four ways: state as a government (the collective set of personnel who occupy positions of decisional authority in policy formulation); state as 'administrative apparatuses as a coherent totality'; state as a ruling class; and state as a normative order (see also Hawes and Liu 1993). In the context of this thesis, the first two definitions of state are most relevant.

In this thesis, state is regarded as a collective of political actors. Politics is wider than the state. It is defined as "activities through which people make, preserve and amend the general rules under which they live" (Heywood 2002: 7). Thus, in this definition, it involves anyone, without them necessarily being involved in the political arena, such as political parties, or those involved in government activities. Politics also refers to any activities and strategies of resource allocation. In the context of this thesis, along with positioning the state as a collective of political actors, I also regard politics in four ways: a) 'various processes through which government responds to pressure from the larger society, in particular by allocating benefits, rewards and penalties'. Here politics is associated with 'policy', i.e. a formal or authoritative decision that establishes a plan of action for the community (Heywood 2002: 8); b) as activities that businesspeople exercise in wealth accumulation through the elites, political parties, and business associations; c) strategies to accumulate wealth and to access state resources in the realm of society organizations; and d) political competition among business

actors in the arena of business associations to access resources.

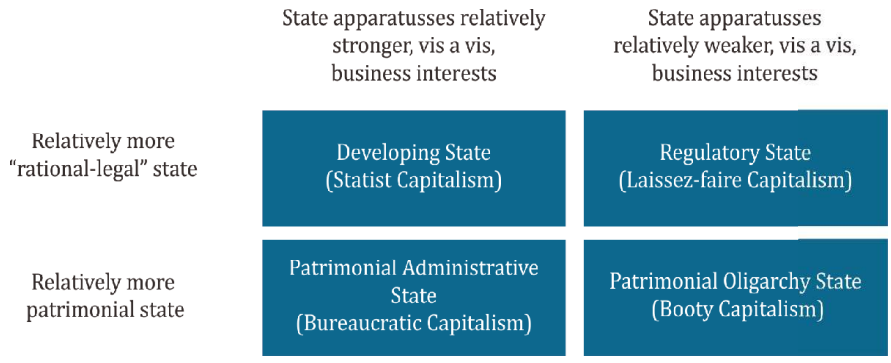
'Business' is defined as activities on 'appropriating surplus through the exploitation of wage labourers to reproduce and accumulate capital in their enterprises' (cited from Rutten 1995: 51). This is a generic definition as it does not distinguish scale of business (high, medium and low), whether they are facilitated by the state, and the way they operate. Since my thesis deals with small- and medium-scale enterprises in the informal sector, I specify this generic definition in the context of small- and medium-scale business. In terms of the size of the workforce, these involve between one and 50 non-family wage labourers (Ibid.). In terms of liquidity, they make IDR 20 million per month (US$2,000) gross (max). The workers have no social benefits as in the formal sector, and the relationship between the workers and the owner can be described as patron-clientalist.

It is relevant for our discussion to differentiate between the types of relationships between state actors and businesspeople in accessing business opportunities. An important feature of the relationship between state actors and entrepreneurs is patronage. Indonesian politics is described by social scientists as featuring 'patrimonialism'. Max Weber used the notion of 'patrimonialism' to pinpoint at least two characteristics: power that rulers exercise depends on their capacity to obtain loyalty of the political elite (not the people as with the principle of democracy); and in order to be politically accepted, rulers fulfil the material interest of their supporters through fees and benefits. The masses, or people, are insignificant because they are poor, ignorant and not politically active. Thus, in this understanding, patrimonialism is a feature of elite politics. Despite the fact that modernization has taken place, traditional features persist, at least in the case of Indonesia as Crouch (1975-1976) argued. The Indonesian state, especially during the New Order, is described by Crouch as consisting of a massive network of patronage from the top level of the presidency in Jakarta to the heads of villages in rural areas (vertically); and it operates in various sectors of life.

Hutchcroft (1998) pushed the discussion of the patrimonial state further by equating the patrimonial feature of modern states with capitalist development. Within the framework of state-capitalist relations, he contended, various models of the state exist. He differentiated these using two

variables, namely the strength (strong or weak) of state apparatuses, and the degree of 'rationality' (or modernity) of a state (rational versus patrimonial). By combining these two variables he came out with four models that can be seen in the figure below.

**Figure 1.1** Model of State in Relation to Capitalist Development


State apparatusses relatively stronger, vis a vis, business interests
State apparatusses relatively weaker, vis a vis, business interests
Relatively more "rational-legal" state
Developing State (Statist Capitalism)
Regulatory State (Laissez-faire Capitalism)
Relatively more patrimonial state
Patrimonial Administrative State (Bureaucratic Capitalism)
Patrimonial Oligarchy State (Booty Capitalism)

Source: Hutchcroft (1998: 20)

If we apply the models of Hutchcroft to Indonesia the following picture emerges. In the period that Soeharto was still in power, the state was strong and patrimonialism featured in the way it operated, to be typified as a so-called 'Patrimonial Administrative State' or bureaucratic capitalism. After Soeharto lost power, the state became relatively weak and business interests got more leverage due to the liberalizations enforced by multilateral donor agencies. Yet, the feature of the state remained basically patrimonial. Thus, according to Hutchcrofts classification, the Indonesian state in the post Soeharto era can be characterized more closely approximating the 'Patrimonial Oligarchy State', or 'Booty Capitalism'.

Relevant to our discussion here is that patronage (as an exchange relationship) is a mechanism underlying the operation of the patrimonial state. Patron-client relationships are a channel through which the state distributes its resources to businesspeople. The state (as a patron) figures particularly in the government, such as the president, ministries, or military

officers; they issue benefits or are involved in economic policies that benefit their selected clients or businesspeople. State actors distribute business opportunities to their associates whose loyalty they need. In return, their associates will follow whatever wishes the state actors demand of them.

By taking into account the many political changes that have taken place—the less dominant roles of former ruling party Golkar, the multiparty system, the decentralization of power, the rise of active civil society organizations, and international influences, such as globalization, that have been important to the Indonesian economy — a few relevant questions emerge out of this discussion. Do state-business relations remain the same in the post Soeharto era as during the Soeharto period? Are the state models that Hutchcroft provides useful to help us answer this question? To what extent does patrimonialism, along with its patronage system, characterise state-business relations in Indonesia?

Despite all kind of progress in political life, in terms of elite survival, Robison and Hadiz (2004) suggest that the patrimonial features of Indonesian politics has remained in the post Soeharto era. Instead of disappearing, Soeharto's patronage system (of former Golkar elites, military and crony businesspeople), has, as a matter of fact, survived. They have formed an 'oligarchy' defined as a "system of government in which virtually all political power is held by a very small number of wealthy people who shape public policy" (Robison and Hadiz 2004: 16, footnote 6). All new democratic institutions, such as political parties, and new forms of parliament are merely a vehicle for this oligarchy. According to Hadiz and Robison, all international support or pressures to reform are of no use, as the oligarchy can quickly adapt to the changes, including to decentralization. The specific 'neo-institutionalist' framework of the multilateral agencies (IMF and The World Bank), which emphasizes the technocratic dimensions of governance, transparency, accountability, and people participation (World Bank 2000), are hijacked. As a result, state and business relationships in post Soeharto Indonesia, according to Hadiz and Robison, have not changed at all.

Fukuoka (2012: 87) suggests that the business community in Indonesia today has enhanced its autonomy from the state, when compared to the Soeharto era. Electoral democracy has facilitated the emergence of a variety

of groups in representative bodies, such as parliament. Business actors use these bodies as political vehicles. The number of members of parliament (MP) with business backgrounds in the national legislative body after the 2004 election increased significantly: in the Golkar party it was 53.4%, in the PDI Perjuangan 57.2%, in the Partai Kebangkitan Bangsa 49.1%, and in the Partai Amanat Nasional 55.6% (Kompas 4-12-2005, cited in Fukuoka 2012). The freedom of business actors to use political parties to make sure their business interests are guaranteed has increased. During the Soeharto era, they could only make a political alliance with Golkar. In addition, involvement of businessmen in the policy making process has increased as well.

Fukuoka (2012) suggests that state and business relationships in post Soeharto Indonesia have transformed from 'bureaucratic capitalism' to 'booty capitalism', using Hutchcroft's model of states explained above. Both forms of capitalism have patrimonial features. The first one is 'patrimonial administrative', the second is 'patrimonial oligarchic'. The difference between both, according to Hadiz and Robison (2004: 5), is the role the main actors play in it. In bureaucratic capitalism, the primacy is more at the level of state apparatuses, and with booty capitalism it is business interests which are primary. Both Hadiz and Robison and Fukuoka argue that these features of booty capitalism now appear both at the national and local level. Business actors, for instance, are involved in funding elections in Gowa, South Sulawesi (Buehler and Tan 2007) and in the Riau governor election (Choi 2007). Van Klinken contends that there is an emerging 'patronage democracy' in provincial Indonesia, marked by increased domination of the state in job and service provision, and "elected officials enjoy significant discretion in the implementation of laws allocating jobs at the disposal of the state" (2009b: 141).

This thesis attempts to zoom in on the detailed nature and dynamics of state-business relations at the provincial level in the post-Soeharto era. Equipped with the above literature review on how state-business relationship emerged at the national level, this thesis attempts to understand how the everyday practices of businesspeople to access state resources come about at the level of a provincial town. The majority of the entrepreneurs at

the provincial level are predominantly small and medium scale. The largest number of business enterprises in the country fall into this category, both in turn-over and in the number of workers. As the government is now closer to the people, as envisaged by decentralization, it will be interesting to understand how local businesspeople approach the local state to gain access to resources to survive and to expand their businesses.

One way to help us better to understand the way of doing business in a provincial town is to apply the ideas of Bourdieu (Bourdieu and Wacquant 1992). His argument is that we need to take account of the informal rules that apply, not only the formal. His analysis of a 'game' fits well with how such interactions occur. In a card game there are rules, but the way the rules are applied depends on the game and its players. Cards also have different values, or capital—trump cards, for example, have greater capital (Bourdieu and Wacquant, 1992: 98). So if we use Bourdieu's ideas, we can compare doing business to playing a game of cards: there are rules, but they include not only the official, bureaucratic rules. There are other informal rules—social, cultural, religious—the value of which can be uncertain and depend on the situation, context and actors involved. Those involved in doing business also have different capital at their disposal—political, religious, family, friendship connections, financial resources, etc. As in a game of cards, the winner in business will be the one who is best able to use available capital and play according to the rules, the informal as well as the formal.

The best way to fully grasp the socially-embedded nature of business in a provincial town is to apply a socio-anthropological approach. I will not just rely on statistics as economists would do, nor on formal interviews as is the common technique used by political scientists. Both types of approaches tend to render rather static features and categories, while my study will focus on the intricate relationship between politics and business as processes and mechanisms described from within.

In order to research state-business relationships, I divide the research into three areas of investigation. In the arena of politics, I examine the changes in political life after the enactment of decentralization in Indonesia, which is providing the background to the shifts in business activities.

In the arena of business, I pay attention to the impact of the reforms (liberalization) after Soeharto, as well as the integration of Indonesia into the global market. Last, but not least, I bring together the two relevant aspects of politics and business, and focus on how businesspeople in the Central Javanese town of Pekalongan have reacted to decentralization and liberalization.

### a. Research question

My research has been guided by the following research questions. One is a broad question and the others are operational ones. The broad research question of this thesis concerns the nature of the relationship between the state and business (business-politics) in post Soeharto Indonesia at district/city level. The operational questions are:

How do businesspeople in a provincial town deal with the recent social and political changes and economic trends at the national and global level?

What kind of political strategies do they apply in order to ensure the survival of their businesses and to gain and maintain access to state resources in everyday life?

How and why do political actors use and relate to business actors, and how do they distribute or gain access to resources?

### b. Research area: Pekalongan

This research was conducted in the city of Pekalongan, Central Java, which is well-known as a main centre for the production of batik. The city has a population of around 300,000 people and covers an area of 45 square kilometres. It is situated about two-hour drive to the west of Semarang, the capital city of Central Java.

Pekalongan is one of about 200 middle-sized towns spread around the Indonesian archipelago with a population between 50,000 and one million. These cities engage predominantly in business and trading. In most cases, the elites are bound together socially by ethnic and religious ties. Van Klinken (2009a) suggests that these towns occupy a specific social zone,

which he labels 'Middle Indonesia'. This thesis is part of the research project, 'In search of Middle Indonesia', which is "a wide-ranging attempt to relocate the focus of the social science research agenda on Indonesia, away from the 'commanding heights' of society, the state and the economy, to the underestimated middle reaches. [...] Middle Indonesia represents the geographical space between village and metropolitan city, the social space between the established upper-middle classes and the urban poor, the economic and political twilight zone between formal institutions and markets (and between informal and illegal arrangements) [...] Nearly a quarter of the population lives in provincial urbanizing areas, but despite their growing size and increasing importance our knowledge about these groups and the spaces they inhabit remains limited." (www.kitlv.nl).

We can group 200 middle towns in Indonesia according to their main economic mode of production. Overall there are two main types: market-driven and state-driven towns. A 'market-driven' town is a town that is run predominantly by market activities initiated by the private sector, such as trading, industry, and services. The 'state-driven' town is a town that can only survive because of the existence of state/government activities. There is no large private sector in this latter type of town, and the life of the town depends predominantly on the state budget, or state-related activities. Kupang, the capital of East Nusa Tenggara, is an example of a state-driven town. Tidey's (2012) research in Kupang explored the performance of the state in the everyday context. Two other cities studied in the research project 'In Search of Middle Indonesia' are Cilegon in Banten province, West Java, and Ternate in North Moluccas. Cilegon is a manufacturing town (Naafs 2012), where Indonesia's largest steel factory (Krakatau Steel) is located. Ternate has more similarity with Kupang; economic activities in Ternate rely predominantly on state funds. Pekalongan can be labelled a 'market-driven' city, with several main industries operated by the private sector. The batik sector has more than ten garment manufacturers, hundreds of weaving enterprises, and handicrafts and sarong manufacturers. The majority of them are small- and medium-scale enterprises. Besides that, there are a large number of small and medium construction companies that operate in the city of Pekalongan and its surroundings. Together these

two sectors absorb the majority of the manpower in the town.

### c. Research methods

I studied two groups of people in Pekalongan: economic actors and political actors - categories which were often hard to discern as entrepreneurs were regularly involved in political activities and political actors were involved in business or making use of business contacts for political purposes.[8] The economic actors consisted of entrepreneurs working in the batik and construction sectors, while political actors were elected politicians (members of the local parliament and the mayor of the city), members of local political parties, and local administrators. To understand how they relate, I employed a combination of quantitative and qualitative methods. Quantitative methods gave me a basic profile of the batik and construction sectors. At the beginning of my fieldwork, I conducted a survey of all the batik and construction enterprises in Pekalongan, based on the data from the Office of Industry in Pekalongan, the authoritative government body dealing with these sectors. For batik, there are 349 enterprises in total. For the construction, there are 50 units[9]. To gain a basic idea of the construction sector, I used statistical data from the development body of the construction board at the national level (LPKJ *Lembaga Pengembangan Jasa Konstruksi*) as well as my own survey.

The two main aspects I examined in the quantitative survey covered, firstly, a general profile of the enterprises (year of establishment, ownership, types of business activities—procurement or production, marketing processes used, management, and liquidity); and secondly, the social and political involvement of the owners of the enterprises, such as their activities in business associations, and proximity to government or political actors. I asked, for instance, whether the batik entrepreneurs had ever received projects from the government or whether they were active in business organizations. Each interview took around 60 minutes on average.

[8]See for instance the introduction of this thesis and the description of the Djunaid family.
[9]I conducted the survey over a ten-day period at the end of January to early February 2008, in Pekalongan. The office of Industry and Cooperatives (Dinas Perindustrian dan Koperasi) listed 611 batik enterprises, but I could only find 349. The 50 construction enterprises in the survey made up more than half the registered construction enterprises in 2008.

Seven enumerators assisted me in the survey.[10] The aim of the survey was to give me a general understanding of the background structure of the businesses and to help me decide which issues to follow up in my qualitative research.

Qualitative methods (semi-structured interviews and participant observation) were applied after I had the basic map of the two business sectors from my survey. To the entrepreneurs, I asked questions about political issues in relation to their businesses, such as their involvement in business associations, their opinion of the government programs or assistance schemes in the batik and construction sectors, how they get access to political actors, and what strategies they apply. In total I interviewed around 70 batik entrepreneurs. Half of them, I interviewed twice. I followed ten of them over a longer period of time as they went about their daily activities: accompanying them to the market, joining formal dinners with their business partners, making home visits, engaging in chit chat, and joining a conference outside Pekalongan. Of the building contractors (*pemborong*), I met and interviewed around 20 people, and I followed five of them for a longer period of time. The majority of the businesspeople in the construction sector are male. With these male informants, I was not able to establish any close personal connections in the way I did with the female informants, although I did interview most of them at least three times, and accompanied them in their daily business activities.

In the political field, I interviewed top-level policy makers, such as the mayor of Pekalongan and 40 bureaucrats, 40 politicians (members of the Pekalongan DPRD and party activists), and around 20 civil society activists. To them, I asked questions about general political life, and, if possible, I explored specific connections between politics and the two business areas of my research—the batik and construction sectors. I paid special attention to the Pekalongan regional budget APBD (*Anggaran Pendapatan dan Belanja Daerah*) to try to understand how funds are allocated and distributed in the two sectors. To the members of the local parliament, I asked about

[10] They are Husni Rohman, Yayan Tsalasa, Fitri Prihandini, Idris Ikhwanudin, Dwi Ari Winanti, Yogi Setya Permana, and M Shendy Adam. The first three work at the Centre of Population Studies Gadjah Mada University, and the last three are research assistant at Government studies, Fisipol UGM. I thank them all for their valuable assistance.

policy making and budget allocation for the batik and construction sectors. To members of civil society organizations, such as business associations, I asked about their relations with the government, and to what extent the government did or did not support their business activities. I also interviewed members of other civil society organizations, some with affiliation to the government, as well as to independent groups.

While all entrepreneurs use connections with politicians to get business done, or try to establish such connections, the subject is sensitive and not confessed to or openly discussed. To gather useful data, I had to find ways to gain the confidence of my informants. Entrepreneurs and politicians who were having a conflict with particular political actors, such as the mayor of the city, were quite willing to tell me their side of the story. However, entrepreneurs who had amicable relationships with the government and could gain easy access to government projects were somewhat evasive and would only talk about these relationships in a superficial way.

I had never lived in Pekalongan before and I had no network in the batik industry. I was also aware from my reading in Amsterdam that business actors are hard to approach. They tend to think that researchers try to gain data for the tax offices (Rutten 1995), try to steal their business networks and partners, or they reveal their business strengths to their competitors. Because of that, business people tend to be careful in revealing information, and I was, therefore, careful in approaching my research subjects. I rented a house in the centre of the city and started from my neighbours who ran a batik business. From there I asked about their relatives and business networks and whether I could meet them as well. In the first months of my fieldwork, whenever I interviewed a batik shop owner, I bought their batik products. I wanted to gain their sympathy so that they would talk to me. Also, by buying from then I could show them that I appreciated their business. I also took my friends from Yogya or friends from abroad who happened to visit me in Pekalongan to batik shops whose owners were difficult to approach. Intentionally, I took my friend who is a journalist at The Jakarta Post to one of the exhibitions which took place in Jakarta. Many batik entrepreneurs who would like to be profiled in the Post saw me as someone with a vast network of journalists. I ended up having many batik sarongs in

my wardrobe, but I also got a pile of good stories about their lives.

I tried other strategies as well: I joined social activities, such as religious gatherings in the neighbourhood where I lived, and I went with one batik entrepreneur to a gathering in another ward (*kelurahan*) where there were many batik businesses. At the gathering, I could see that for them I was no longer a researcher, but a resident who wanted to participate in religious activities. Along with that, I joined communal workers, accepted wedding invitations, attended circumcision ceremonies and funerals, and visited neighbours and administrators who were planning to go on pilgrimage to Mecca. I usually went to these events with the owner of my rented house, or with women entrepreneurs in my neighbourhood. Before or after the event, we usually had a bowl of *tauto*, a famous Pekalongan beef stew dish, in one of my informant's favourite food stall. In these activities I listened to their complaints about other entrepreneurs, and heard other gossip about affairs and divorces of some entrepreneurs. Along with that, I assisted one association of batik entrepreneurs by typing the minutes of their meetings; I helped the chair of the association with her power point presentations; I tried to be there for them if they asked me for a favour, such as to accompany them to the market; I accompanied them to visit their business partners; and in one instance stayed overnight at the home of a woman entrepreneur who was lonely because her husband was on another business trip.

A friend is a lecturer at the local university and it turned out that many of his students were contractors. I asked him if I could approach them in one of his classes. Two of these students are among the contractors I followed during my fieldwork. As a woman, I was less active in approaching my predominantly male informants. However, I visited their houses and got acquainted with the wives and the extended families. They were aware I was a researcher from UGM. Sometimes, I dropped by at my informants' houses and brought along snacks from Yogya.

I gained access to politicians and political meetings through a young party cadre of the PAN (*Partai Amanat Nasional*), National Mandate Party. One of PAN's young politicians asked me to give a short lecture on the topic of political parties, which I delivered, in the hope that he would help me with further contacts. I subsequently joined PAN political party meetings.

During these meetings I was sometimes asked to give my opinion on how things should be, at least from the perspective of text books. The meetings often lasted till mid-night; during Ramadan, I even had my early breakfast (*Sahur*) with them. I was aware that by being so close to one political party could be regarded as being a member of the 'success team', meaning a person who helps a politician candidate to win the election. Starting from the PAN party, I therefore tried to extend my network of informants to other leading parties in Pekalongan, such as PKB (*Partai Kebangkitan Bangsa*), State Awakening Party, PPP (*Partai Persatuan Pembangunan*), United Development Party, and Golkar (*Golongan Karya*), Functional Group party.

My access to top-level politicians and administrators was through the help of one informant who happened to be a person trusted by the mayor. I managed to interview the Pekalongan mayor a couple of times, including meeting up with his family members who run a batik business. The mayor once asked me to be part of his team to work on his poverty eradication program, together with administrators and local NGO members. The poverty eradication program was one of the programs he promised as part of his second term in office (2009-2014).

I made a point of 'hanging out' with young entrepreneurs, mostly male, in their favourite Internet café, and I eventually gained their trust. They started telling me stories about their businesses, the tough competition, how they hate the government which they think never cares about them. Most of young entrepreneurs I met there are active in the ASEPHI association (*Asosiasi Eksportir Handicraft Indonesia*).

As a woman researcher, I found it easy to contact women entrepreneurs, and most of my informants in the batik business in Pekalongan were women. Many of them were not independent, but ran the family enterprise together with their husbands. The women usually took care of the internal affairs of the enterprise, such as organizing the production process and dealing with the workers. Their male partner dealt with external affairs, such as obtaining loans from the bank or product marketing. The construction industry consisted almost exclusively of male entrepreneurs, and there were hardly any women present in the running of the enterprises. Intense lobbying of the mostly male members of the local government and local

parliament is integral to obtaining projects. I encountered only two women in this sector, but they were reluctant to meet me. Those women who took part in their family enterprise were involved mostly with administrative affairs; their husbands were responsible for accessing projects, and dealing with local government staff and members of local parliament. I could talk and interview their husbands but these talks were rather formal.

### d. Outline of the dissertation

This dissertation consists of seven chapters. Chapter One has introduced the basic idea of the thesis, the research approach, the research questions and how I went about collecting the data, that is, the methodology used. The second chapter gives a historical overview of state-business relations in Indonesia through the lens of changes in economic policies. I argue in this chapter that throughout Indonesian history, state policies and politics have influenced business; that the intermingling between business and politics has been consistent, although factors that influence the relationship have been different in each period.

Chapter Three describes Pekalongan, the setting of the research, as well as the two business sectors that are central in this thesis. The chapter provides basic information about Pekalongan as a trading town, populated by multicultural groups, but dominated by social and political actors belonging to Islamic religious orthodox groups. The chapter also elaborates on the geographical aspects of the town, especially in relation to the two business sectors of batik and construction. These two business sectors used to be protected by the state in the past: the protection in the batik sector ended during Soeharto era in early 1970s, while the protection in the construction industry ended after the economic crisis in the late 1990s. Chapter Four elaborates on the changing political context of Pekalongan, focusing on the strengthening of local parliament and active civil society organizations. This chapter provides a political background to the business activities in Pekalongan.

Chapters Five and Six discuss how business and politics operate in the batik and construction sector. Chapter Five elaborates on the batik sector, and Chapter Six describes the work of businesses in the construction sector. In

each chapter I explore the changes in macroeconomic policies, and the way in which businesspeople in Pekalongan have reacted and responded to the shifts, individually and collectively. I also describe how they use their political contacts to keep their businesses working. I show how the practice of politics in the batik and construction sectors is different, due to the specific characteristics of the two sectors and in the degree of dependency on state and market.

In the last and concluding chapter of this thesis I summarise the empirical findings and link them to the theoretical debate on state-business relations, described in the first part of the thesis.

# Chapter 2

# CHAPTER 2
# STATE-BUSINESS RELATIONS IN INDONESIA

This chapter explores state-business relations in Indonesia at the national level in historical perspective, from 1949 through the post-Soeharto era until 2008. These relations developed in the context of changes in the global market that had a significant influence in determining the economic orientation of Indonesia during this historical period. The state-business relations at the level of the provincial town have been and continue to be largely determined by economic policies that Indonesia has adopted during various historical periods since independence. Economic policies are the product of complex policy-making processes in political arenas in which actors struggle to defend and protect their own interests. Hence, it is difficult to separate economic policies from the power struggles and politics behind them. While the focal point of this thesis is on understanding the nature of state-business relations at the provincial town, we have to explore first how national-level state-business relations evolved in different historical periods and how these relations at the national-level had an impact at the provincial level.

I divide the discussion on state-business and state-society relations, including the role of global and external factors that shape these relations, into four historical periods: 1949-1965, 1966-1973, 1974-1997, and

1998-onwards. These periods are determined both by political changes (independence) and by changes that affected the economy (for example, the rise in oil prices). Sometimes the political and economic changes overlapped, but not always. Throughout the chapter, I identify the major economic policy orientations, the consequences of these in the realm of politics, the impact on business life in general and in provincial towns in particular. The question I want to address in this chapter is: how did state-business relationships in Indonesia evolve amidst divergent forces of global market expansion and political changes, and particularly how did relationships evolve between business and politics at the provincial level between 1949 and 2010?

## 1. Post-independence and nationalistic orientation (1949-1965)

After gaining independence, as with other newly-independent countries, Indonesia had to determine the direction of its economic development. The decision could not be separated from the power constellation among political actors, the social-political context (partly a colonial legacy), and the global setting of that particular time. Disagreement among main political actors in post-independence Indonesia on what route should be taken coloured the decision making. Higgins (1957: 96-99) mapped two groups of politicians who dominated the political orientation in post-independence Indonesia. He called the first group the 'economic-minded' or 'development-minded' and the second group the 'historical-minded' politicians.

The first group consisted of Dutch-trained economists. They were pragmatists and concerned with creating a new economic system and how to make it work. The second group consisted of "a mixture of communists and of a larger number of nationalists, conservatives and isolationists" (Ibid.). The historical-minded politicians focused more on nationalist and populist issues, such as the need to have ownership of the strategic economic enterprises of the former Dutch colony, believing that Indonesians should assume a major role in the possession of the nation's wealth. They were less concerned about how to create and maintain a viable economic system in the way the pragmatist group was.

Despite their different orientations towards building an economic

system, both groups shared similar ideologies of nationalism and socialism (Glassburner 1962: 120), although the two groups did not have the same level of commitment to these ideologies. Both were nationalist and against foreign domination; and both were socialist in that they believed in distributing wealth. Both believed private enterprises were inherently exploitative and thought that the state should be the major player in the economic system. The common perception was that only the state was capable of realizing national interest, and, as noted by Higgins (Higgins 1968: 103), it was also believed that the state had a strong political mission and the legitimacy to minimise economic domination by Chinese-Indonesians and Dutch-owned enterprises. In the early years of independence, the economy was still dominated by the former Dutch colony and a minority of Indonesian Chinese without political power. After independence, with the administration dominated by educated pribumi or native Indonesians (non-Chinese), who had worked in the colonial administration, the state had sufficient power to address the imbalance in the ownership of the economy.

The economic situation at that time also helps to explain this ideological inclination. Although Indonesia had gained political independence in 1945 and international recognition in 1949, Amstutz (1958) estimated that, in 1952, 50% of all consumer imports were still in the hands of four Dutch firms (Glassburner 1962: 119). For both the 'nationalists' and 'socialists', the only way to resolve this situation involved two strategies: nationalization of Dutch assets and the establishment of pribumi entrepreneurs. Of these two options, the 'economic-minded' group prioritized the second strategy, while the 'historical-minded' group focused on the first one. This difference in priorities resulted in different economic orientations in succeeding government cabinets.

In the political arena, these two groups of leaders co-existed in a liberal parliamentary democracy from 1949 until 1957. 'Historical-minded' groups were predominantly the nationalist and Islamic parties, while the 'economic-minded' were dominated by the socialist party. The first cabinets were a series of coalitions, all weak and frequently changing. Between 1949 and 1956, there were seven government cabinets. Because of the different economic orientations and the shifts in power within the cabinets, it

was difficult to establish strong support for any kind of policy, including economic policy (Ricklefs 2001: 295).

Despite the unstable power constellation, the national parliament launched its first systematic economic program in 1951, called the 'Economic Urgency Plan' (*Rencana Urgensi Ekonomi*). It aimed to realise the principle of supporting the emergence of pribumi industrialists sponsored by the state. This policy was a mixture between the ideas of the two economic groups: the 'historical-minded' group wanted to strengthen pribumi economic actors against the Chinese and the Dutch; and for the 'economic minded' this was the first systematic attempt to overcome dependency on a foreign economy (Glassburner 1962: 123). The plan regulated state domination of key industries (defence plants, chemical industries, cement plants, power plants, waterworks, and transport enterprises); addressed the issue of ownership of foreign enterprises, including those owned by the Dutch (the government should be in a dominant position by holding at least 50% of the shares of the capital and the majority of positions in the board of directors); and restricted the inflow of foreign capital (Sutter 1959: 775).

One of the programs of the Economic Urgency Plan was the *Benteng*, 'Fortress', Programme (1951-1956). This was an affirmative action policy aimed at strengthening pribumi entrepreneurs in the export-trading sector. The program reserved certain goods exclusively for pribumi exporters, provided credit through state-owned banks for eligible pribumi entrepreneurs, and regulated the exporters by a list of requirements (Robison 1986: 44-45).[11] The Benteng Program supported the textile industry, including batik producers, the majority of whom had always been pribumi. They had for a long time faced difficulties in obtaining raw materials (cotton or cambric cloth and synthetic dyes) and distributing products, as Chinese-Indonesians and Arab-Indonesians had dominated the sector. The Djunaid family explored in the introduction of this thesis benefitted from the Benteng Programme. An independent construction sector did not exist

[11] Apart from international trading (exporting and importing), the Benteng Program also facilitated the growth of pribumi entrepreneurs in agriculture (rubber and sugar), manufacturing (cement production, textiles, automobile assembly, glass and bottle manufacturing, and hardboard production), and national banking enterprises (Robison 1986: 42-43).

during the Dutch colonial period, but it started to burgeon in the hands of pribumi Indonesians (Van Klinken and Aspinall 2011). Compared to the textile sector, the construction sector during the post-independence era was not developed to such an extent that it could invite cooperation and debates among economic architects in the cabinet, as well as mobilise politicians in the parliament.

The dominant parties in the cabinet profited from these economic-nationalist policies. The Benteng Program was supported by the PNI (The Indonesian Nationalist Party) and Masjumi (Modernist Muslim Party), parties which had strong political bases at the local and provincial levels. The majority of the recipients of subsidies in the textile sector in Pekalongan were Masjumi supporters. Masjumi supporters were known to be entrepreneurs who were also strong outside Java and especially these entrepreneurs benefitted from the distributional policy of the Benteng Program. Other parties such as the PSI (The Indonesian Socialist Party) dominated state resources at the ministry level. Due to the fact that the majority of the cadres had a relatively high education background, they held positions in rich ministries, such as industry and finance. They profited also from the programs through government policies, including in financial business such as the banking sector (Wie 2003: 134). Thus, economic policy during the early post-independence era was closely tied to party politics at the national parliamentary level.

The Benteng program granted pribumi businesspeople in the batik business sole rights as importers and distributors of cotton and synthetic dyes.[12] The Wilopo Cabinet in 1952 organised the so-called 'Cambric Pool', which gave the State Department of Industry the right to coordinate the import of cambric (cotton). The Association of Batik Cooperatives, GKBI, acted as the sole distributors of cambric for members of its cooperatives, the majority of whom were pribumi (GKBI 1969: 51-53). The climax came when the government granted full rights to GKBI to be the sole importer of cotton, not only for cooperative members but also for all batik entrepreneurs in the

[12] Matsuo (1970: 49) suggests that there were two important economic policies for strengthening pribumi textile (including batik) producers: first, the facilitation of pribumi capital through state funds and/or state banks between 1950 and 1957; and secondly, the establishment of state-sponsored spinning mills after 1958.

entire country. In addition, GKBI became the national buffer stock agency for cotton, controlling distribution to industries. In 1959, during the Sukiman cabinet, another special treatment was delivered: the GKBI became the sole importer of chemical dyes and was exempted from paying tax (Ibid.). As a result many new pribumi industrialists emerged and became successful businesspeople.

This pro-pribumi distributional policy benefitted small and medium enterprises in provincial towns. The protection policy facilitated the emergence of batik producers in the well-known centres of production, such as Solo, Yogyakarta and Pekalongan in Central Java, and Majalaya and Cirebon in West Java. The chairperson of the Indonesian Association of Batik Cooperatives, GKBI, was always chosen from one of these areas. For ten years, 1950 - 1960, Achmad Djunaid was the chair of the GKBI as mentioned in the opening section of the introduction.

However, there was another side to this policy: the Benteng program became an arena where close collaboration between politicians and businesspeople occurred. Issuing licences in other business sectors (such as licences for accessing credit from government banks) became a means of financial support for the nationalist party (Glassburner 1962: 125; Rocamora 1975). Entrepreneurs who gained access to facilities through the assistance of political parties should 'pay back' the favours by becoming a source of party finance or contribute to the development of the nation. In the case of the batik sector for instance, Soekarno asked the GKBI to contribute to the construction of a planetarium in Jakarta to boost the glory of the nation and of the PNI (The Indonesian National Party).

A detailed study on how parties and business actors relate to each other has been described in a thesis on the PNI (Rocamora 1975). The author suggests close connections between businesspeople and PNI cadres; the latter assisted the businesspeople by obtaining licenses for them (1975: 138-147). In the banking sector, for instance, the establishment of the National Public Bank (Bank Umum Nasional) in 1952 was part of the PNI politicians-businesspeople connection (Sutter 1959: 998-999). The Socialist Party (PSI) was also involved in business and able to dominate the Indonesian National Bank (BNI). Booth (1998: 136) labelled such behaviour

of politicians in a parliamentary democracy as exhibiting traces of the traditional 'predatory state.' A predatory state aims to extract a maximum and continuing flow of resources to members of the government and its associates. Actors at the top of the government in a predatory state have an interest in the growth of the economy, because their incomes increase as the economy improves. They are willing to invest in the provision of public goods, the establishment of law and order and the building of infrastructure to achieve this end. However, they have no interest in economic initiatives that could eventually lead to the erosion of their own positions and access to resources.

Indonesian politics changed again when President Soekarno declared martial law in 1957, abolishing Indonesia's first experiment with democracy with political parties at the heart of the system. He installed a presidential system and placed himself at the centre of political power. The political parties opposed this decision, prompting Soekarno to establish a new political alliance with the military and the communist party. He also ignored economic considerations suggested by the 'zaken kabinet', business or expert cabinet, under his leadership. His close cooperation with the communist party and his disregard of important political interests and advices would in the end lead to the fall of his government in 1965.

In the years 1957 - 1965, the orientation of economic policy remained in the spirit of socialism, but attention was focused more on the issue of ownership: nationalizing Dutch enterprises was a greater priority than the strengthening of pribumi enterprises, as under the Benteng program. The economic orientation radicalized and there were often violent strategies used to nationalise Dutch assets. There was, however, an international context for this radicalization. First, concerning the nationalization of Dutch enterprises: after a United Nations forum failed to pass a resolution calling upon the Dutch to negotiate a settlement over the West Papua issue (Ricklefs 2001: 316), communist and nationalist labour unions started to take over Dutch-owned enterprises and their business offices, in December 1957. These takeovers were followed by the mobilization of the Indonesian army to West Papua. This mobilization consumed a considerable portion of the state budget and was made possible partly through a loan from

the USSR. Second, radicalization also occurred in domestic business life, especially in regard to minority groups. The definition of 'Indonesian national' became narrower. From 1 January 1960, business activities owned by 'aliens', meaning ethnic Chinese Indonesians and ethnic Arab Indonesians, but especially the Chinese, were banned from rural trade (Government Regulation 1/1960). This created massive migration of Chinese-Indonesians from rural areas to the cities, many of them small- and medium-sized traders and entrepreneurs.

During the period of martial law (1957-1959), military entrenchment in politics intensified. In 1958, the military started to consolidate its own political power by declaring *dwi-fungsi*, or 'dual-function', as its leading ideological position. Rinakit refers to Staff General Nasution who in 1971, conceptualized it as a civilian function, as well as the normal military function that professional military men serve in Western countries. This dual function, including in civilian affairs, gave the military a prominent function in politics. As a result, the army began to dominate Indonesian politics (Rinakit 2005: 19) and later, in the Soeharto era, also the business field.

The political tensions (between the military, the communist party, and Soekarno; between national government and the regions; and also between national interests and international diplomatic relations) reached a climax with a coup attempt, allegedly supported by the communist party, on 30 September 1965. The economic and political crisis that followed the foiled coup ended the Soekarno administration. Indonesia was at its lowest point in political and economic life. Economically, it experienced severe state budget deficits, inflation rose to almost 600%, exports declined, foreign currency reserves shrank to zero, and half of the rural population in Java lived in poverty (Booth 1999: 109-135). Politically, the nation underwent one of the most turbulent periods since independence: conflicts arose between military officers, between the military and political party elites, between the regions and the national government, and among citizens (Feith 1962; Amal 1992). The winner of this conflict was military might, which lasted throughout the three decades of New Order rule. The 1965 political tectonic shift also changed the economic orientation of the post-Soekarno era.

## 2. Stabilization and the start of a pro-market era (1966-1973)

Upon assuming power, the Soeharto regime, which he called the 'New Order', inherited enormous economic and political problems from the Soekarno administration, including a massive foreign debt of US$2.36 billion.[13] To address the economic problems, Soeharto formed an economic team of technocrats and lecturers from the Faculty of Economics at the University of Indonesia to design growth-oriented policies. There was a shift in economic ideology, from socialist to liberal policies coined with a political orientation towards authoritarianism.

The New Order government, as well as the private business sector, began to seek Western financial assistance in the form of loans. It opened the economy up to the global market, and restricted the role of the state in economic life. With the 3 October 1966 Regulation the New Order committed itself to meet the fiscal demands of the World Bank and the International Monetary Fund (IMF). The existing multiple exchange rates and import-export licensing controls in Indonesian international trade were eliminated by fixing the exchange rate system. Export procedures were simplified. Another bill on foreign investment guaranteed security for foreign investors in Indonesia and granted tax-free facilities for goods (Mallarangeng 2004: 53). These actions removed numerous distortions from the domestic pricing structure and reduced bureaucratic and political corruption (Bresnan 1993: 65). Indonesia was ready to enter liberalization.

The New Order set its economic development in phases, the so-called the five-year plans or Repelita (*Rencana Pembangunan Lima Tahun*) of which the first started in 1969. Each of the plans consisted of targets of development, with economic growth as a main frame of orientation. In the context of the textile industry, Boucherie (1969) noted that the plan for the first five years of development (Repelita, *Rencana Pembangunan Lima Tahun)*, 1969-1973, included substantial rehabilitation and expansion programs for the textile industry. The first Repelita targeted an increase in production from approximately 330 million metres annually to 900 million metres (Boucherie 1969: 47). To fulfil the target the government constructed 14 new cotton spinning mills, mostly in Java. One decade later,

[13]From this amount, 42% came from the Soviet Union, 24.9% from Western countries, and the rest from other non-communist sources (Ricklefs 2001: 352).

the output of textile production in Indonesia had grown tremendously, as data from Hill (1995) in Table 2.1 show.

**Table 2.1** Output of The Weaving Industry for selected years (1968 1977/1978)

| Year | 1968 | 1969 | 1973/ 1974 | 1975/ 1976 | 1976/ 1977 | 1977/ 1978 |
|---|---|---|---|---|---|---|
| Output (million metres) | 245 | 372 | 769 | 877 | 994 | 1,073 |
| Annual growth | | 52 | 20 | 7 | 13 | 8 |

Source: Hill (1995: 84)

However, liberalization of the economy for certain essential commodities presented the government with a dilemma. Such changes would most likely result in price increases, something that would not be popular, especially at the time of a regime change. Thus policies were put in place to protect prices of essential commodities, such as rice, fertilizer, newsprint, and diesel oil for electric power generation. Selected government departments and enterprises were also protected and assigned monopolies to manage these essential commodities were put in place; the monopolies were also permitted to continue importing directly from foreign suppliers. Thus, the Soeharto government never totally implemented full liberalization and pro-market economic policies. The regime also continued some state-oriented policies that resembled the socialist policies of the previous era; but 'socialist' only in terms of the domination of state apparatuses in strategic economic sectors, not in terms of distributional policy.

Some of the most important New Order actors in planning the development were the 'technocrats'. They were professionally trained and graduates from western universities, mostly in the field of economics. They attempted to isolate the process of policy making in the economy from political influences. The technocratic economic policies that they issued

were accompanied by an authoritarian political system. Without political stability, no economic development could be successful, and it was deemed necessary to establish political stability to ensure the implementation of economic programs (Haggard and Kaufman 1994: 8). The New Order created a unique political infrastructure based on a combination of military domination, centralization of national management, and repression of civil and political society. The military became the primary political actor in the New Order government. Under the pretext of dual-function, the role of the military in the social, economic, and political fields was ideologically and legally justified.[14]

The military were also active in business; their official, semi-official and private business activities expanded rapidly during the New Order (Crouch 1975-1976: 524). The justification for the military's involvement in business was attributed to insufficient funds from the state budget for military expenditures; only one-third of the total military budget was from the state (Crouch 1975-1976; Ricklefs 2001; Rinakit 2005: 150). To fulfil military budgetary needs, the New Order regime continued to allow a practice started during the Guided Democracy period of the previous regime, whereby the army raised its own funds, and individual officers were allowed to engage in business activities. This strategy also aimed to appease members of the armed forces in the regions, who lacked funds that the army headquarters in Jakarta could not fulfil.[15] To do business at the local level, proximity with military men became a must. In this context, military officers preferred to conduct their businesses with Chinese-Indonesian partners because of their strong business acumen and their political impotence (Ricklefs 2001: 353).

In addition to the dominant presence of the military in politics and the strong central administration, the New Order government was very

[14] This is not unique to Indonesia. A similar pattern of combining economic development with political stability led by an authoritarian regime can be found in Latin America (Haggard and Kaufman 1994).

[15] One of the causes of a confrontation led by military officers stationed in the regions in the 1950s was the lack of funds (Amal 1992). The New Order central administration and military officers at the headquarters wanted to avoid any protests in the future, hence the leeway given to the military to be involved in business activities in the regions, which was regarded as a win-win solution.

repressive of civil society, having zero tolerance for active participation by citizens in the political sphere. Opposition was not tolerated. Citizens remained in the role of spectators during political events, such as elections. Business associations followed the corporatist logic: only one association was allowed in each business sector (Schmitter 1974, MacIntyre 1991); the head of each association was selected based on political considerations determined by the government and military powers; and it was compulsory to report activities conducted by associations to the government. Violation of these regulations had grave consequences. Similar restraints were in place for labour unions.

The New Order's pro-growth and economic development orientation backed by an authoritarian political system affected the business world in three ways. First, military officers dominated business at all levels, from national to regional. If during the period of parliamentary democracy (1950-1956) political parties dominated the policy-making process, during the New Order it was the military. Conducting business after 1965 was impossible without connections with military officers. Second, the military preference to do business with Chinese-Indonesian business partners led to the marginalization of pribumi business actors. Partnerships between military officers and Chinese-Indonesians were prolific, especially in the burgeoning industrial sector and in the mining and plantation sectors, because these sectors involved large capital. Medium and small-scale industries, which dominated economic life in the provinces, mirrored the pattern found at the national level: military officials were involved at every bureaucratic level in business activities. Third, there was a shift in the types of businesses that grew up in provincial towns compared to those of the Soekarno era. As the protection for small and medium business was abolished, provincial business actors oriented themselves towards infrastructure projects, such as irrigation for agriculture. Thus the batik or textile sector was weakened, while the procurement sector emerged.

## 3. The oil boom and renewed nationalistic economy under the developmental state (1974-1997)

The second period of New Order rule, from 1974 to 1986, was the period of highest economic achievement. This was due to the 'oil boom' at the beginning of the 1970s. The oil bonanza brought an increase in government revenues in the oil and gas sector amounting to over 70% of all government revenues in the fiscal year of 1981-1982 (Winters 1996: 120-121). This sudden abundance provided the Soeharto administration with more flexibility in implementing liberal policies dictated by the IMF and the World Bank, while in the political realm authoritarianism was getting stronger.

This period was marked by a renewed pro-state orientation in New Order economic policies. The government expanded the number of state-owned enterprises across a wide range of heavy industries, a strategy that brought back a protectionist spirit (Robison and Rosser 1998: 1596).[16] In the meantime, protection for the small- and medium-scale business enterprises was abolished. Wie and Yoshihara (1987) dubbed the government's industrial objectives as 'upstream socialist and downstream capitalist' (1987: 348), treating segments of industry differently: with large-scale businesses, the state applied a distributional policy through protection usually associated with a socialist principle; while the state endorsed open competition for small- and medium-scale business (Ibid.). This mixture of economic strategies shifted the New Order away from its initial commitments to the World Bank and the IMF policies in the mid-1960s, when the regime was newly established.

In the middle of the oil bonanza, a political outburst occurred in Jakarta on 15 January 1974, known as the 'Malari Affair,' an abbreviation of *Limabelas Januari* or fifteenth of January. The outburst occurred in Jakarta when the Japanese Prime Minister, Kakuei Tanaka, visited Jakarta.

[16] Many observers suggest that the existence and birth of state-owned and large-scale enterprise sector in Indonesia is inspired by socialist ideas which stress that the state should dominate the ownership of the most lucrative and strategic resources, which revenues should be spent for the benefit of the population. These ideas reflect also a mistrust of capital markets, and a desire to promote genuine pribumi business development (Palmer 1978; Winters 1996; Robison 1986; Hill 2000: 103).

It involved students from the University of Indonesia as well as many early supporters of the New Order who had become disgruntled. The New Order had promised an improvement in the lives of Indonesians through the 'trickle-down effect', which had not taken place. Instead, according to critics, the gap between the rich and the poor increasingly widened, essentially demonstrating a 'trickle-up effect'. The protests also targeted state-funded projects that were considered to be less beneficial to society, such as the construction of the Indonesian Miniature Park (*Taman Mini*), the dream child of the first lady, Mrs. Tien Soeharto. There were many other criticisms directed at the New Order: the dominance of global investors; corruption problems in state-owned enterprises, such as the oil company Pertamina; marginalization of pribumi industrialists at the expense of wealthier businesspeople, most of whom were Chinese-Indonesians; and finally, accusations regarding payoffs from Japanese investors and Chinese-Indonesian capitalists to the presidential palace, military officers and most government ministries (Winters 1996: 108).

Soeharto responded to this protest quickly, especially regarding accusations of insensitive policies towards small-scale enterprises, most of which belong to pribumi. To demonstrate the concern of the regime for pribumi entrepreneurs, most of whom were engaged in medium- and small-scale businesses, he introduced various schemes; for example, in December 1973 a credit program for small-scale enterprises called Small Investment Credit, KIK (*Kredit Investasi Kecil*) and Permanent Credit for Working Capital, KMKP (*Kredit Modal Kerja Permanen*) were introduced. These were the schemes to give loans with low interest rates to small and medium-scale pribumi entrepreneurs (Bolnick 1982: 66). Chinese Indonesians were prohibited access to these two schemes (Mallarangeng, 2004: 84).

Along with the introduction of various credit schemes to support the pribumi entrepreneurs, the New Order placed greater restrictions on political life. One way it did this was by consolidating the existing political parties into three parties. All civil servants were required to vow 'single loyalty' (*monoloyalitas*) to Golkar, the government party, and they were required to vote for Golkar in elections, staged every five years. Another method used by the New Order was its enforced corporatist strategy—

the organizing of society in groups according to function, occupation and sectors they represented, in order to control and restrict them (Schmitter 1974). The regime organized society with the aim of restricting, rather than channelling, the interests of citizens. This type of state corporatism was found widely in Latin America. Corporatist institutions were based on the reasoning that they incorporated a mixture of elements centred at a single ideology. It was, therefore, a mix between functional, occupational and sectorial groupings (1974: 86), Some examples of the New Order corporate groups are associations of youths, civil servants, female entrepreneurs, engineers, journalists, businesspeople, workers, farmers, fishermen, or students. Each grouping was allowed to have only a single organization and a shared single ideology, namely Pancasila.[17] Pancasila was declared the only ideology acknowledged in the country, and all organizations, even religious organizations, were forced to adopt it as their organization's ideology, as enshrined in the law on social organizations, Law No.3/1987. Refusal to adapt Pancasila as the sole organizational ideology would be regarded as 'extremist of the left' or 'extremist of the right'. Both would bring a consequence of imprisonment (Weatherbee 1984: 189).

Businesses also had to comply with the dictates of the regime's corporatist way of working. The Indonesian Chamber of Commerce (*Kamar Dagang dan Industri*, Kadin*)* was the only business association allowed to exist in the country. The chamber of commerce had three main components: 'Regional offices of the chamber', 'Aspirations Group, and an 'Industry Association' (MacIntyre 1991: 48).[18] Other business organizations apart for

[17] Schmitter described corporatism as a "system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, non-competitive, hierarchically-ordered and functionally-differentiated categories recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and support" (Schmitter 1974: 93).

[18] Among the three coordinates, the Industry Association is the most dynamic. In the late 1980s, there were at least 350 industry associations registered with the Indonesian Ministry of Industry. These associations were often less amenable to control by either the government or Kadin executives. The associations opposed state intervention, while Kadinda supported it. Kadin also played a role as the organisation lobby especially for pribumi businesspeople. The only Chinese-Indonesian businessperson who was a member of Kadin was the wealthy tycoon Liem Soei Liong; he was a member of the advisory board and regularly donated money to the organisation.

Kadin were not allowed to exist. The selection of the head of Kadin was done by the ministry of trade and industry. The budget for the organization came from the state. The key players were limited to the chairpersons of the associations, while the rest of the members remained passive spectators, who gained importance only during the election of the chairpersons.

To control political life, all existing political parties were forced to consolidate into either the corporative government party Golkar (*Partai Golongan Karya*), a single nationalist party, PDI (*Partai Demokrasi Indonesia*), or the religious (Islam)-based party, PPP (*Partai Persatuan Pembangunan*). These political strategies resulted in overwhelming victories of the government party, Golkar, during three consecutive elections in 1987, 1992 and 1997, as shown in the Table 2.2.

**Table 2.2** National Election results in 1987, 1992 and 1997

| Political parties | Elections Result (%) | | | | | |
|---|---|---|---|---|---|---|
| | 1987 | | 1992 | | 1997 | |
| | % | Seats in national parliament (DPR-RI) | % | Seats in DPR-RI | % | Seats in DPR-RI |
| **PPP** | 15.97 | 61 | 17.01 | 62 | 22.43 | 89 |
| **Golkar** | 73.16 | 299 | 68.10 | 282 | 74.51 | 325 |
| **PDI** | 10.87 | 40 | 14.89 | 56 | 3.06 | 11 |

Source: www.kpu.go.id

In the period between 1986 and 1997, oil prices decreased and Indonesia's economic policy had to be adjusted. Between 1982 and 1986 the oil price declined from US$38 per barrel to US$12, then recovered slightly to around US$18. This decline affected Indonesia's revenues from oil and gas exports, which dropped from 82% of total exports in 1982 to 56% of total exports in 1986. The decline caused a severe account deficit in Indonesia from a surplus of US$3 billion to a deficit of US$6 billion (Indrawati 2007: 53).

To cope with the state's deficit, a series of deregulations were issued to reduce the role of the government, to introduce more market-oriented

policies, and to attract foreign investments. The Soeharto administration issued four deregulation packages between 1986 and 1989: in October 1986, December 1987, November 1988, and May 1989. These packages contained at least three main elements: simplifying bureaucratic procedures relating to procuring permits; new regulations facilitating foreign banks to operate in Indonesia outside the capital city of Jakarta; and the establishment of a stock market (the Indonesia Stock Exchange) as a unit independent from intervention by the government.

Mallarangeng argued that these policies were aimed at liberalizing the Indonesian economy (2004: 166-179). However, while having liberalization as their goal, at least in spirit, President Soeharto maintained his patronage system in business networks by granting his close associates (including his family) tax-free import-export trading licenses, special allocations of certain commodities, and low interest rate bank loans. One notorious example was the monopoly on the purchase and distribution of cloves granted by Soeharto in 1991 to his youngest son, Hutomo Mandala Putra. This rise in crony capitalism and economic downturn would eventually be fatal for the regime.

The discussion above shows that the New Order constantly juggled growth-oriented (pro-market) with distributional (pro-state and protectionist) economic strategies, which resulted in a jumble of policies. This policy juggling was rooted in politics, especially in relation to the essential sectors of rice and textiles, sectors that were of most concern to ordinary Indonesians. Any disturbance in the supply of rice and textiles, it feared, would affect political stability in general. The regime could not afford the political consequences, so it refused to allow it to be in the hands of private enterprises. In reality, however, the essential and protected sectors became business opportunities for Soeharto's family members and their close associates. The institution in charge of the rice buffer stock (*Badan Urusan Logistik,* BULOG), for instance, was in the hands of the business of a military unit.

State actors also dominated business at the regional and provincial level mostly on infrastructure procurement and development agendas, such as agriculture. Abdullah (1994) and Rutten (2003) briefly discuss

how business in rural Klaten, Central Java, relied primarily on government projects, such as during the Green Revolution era in the late 1970s. Rural business actors were involved in several development-related projects. They were the distributors of seeds or pesticides through local cooperatives, and they could manage their businesses only if they had strong connections with the state apparatuses. Schiller (1996), similarly, has described how local administrators and local military officers in Jepara, Central Java, made a living from state related projects, especially in the teak carving sector.

Despite the dominant role of the state in economic life, the mix in orientation of policies during the New Order period—between opening up the market and open competition on the one hand, and protecting certain essential sectors on the other—produced Indonesia's best economic performance. The country was praised by the international development establishment, which reached its peak in early 1990s when the World Bank ranked Indonesia as a high-performing country and part of the 'East Asian miracle' (Booth 1999: 112-113). However, underlying this economic achievement were informal arrangements on how business opportunities should be distributed, namely the patronage system in which Soeharto and military power had the final say.

Table 2.3 Economic growth in Indonesia between 1965 and 1996

| | **Average annual growth rate (%)** | | |
|---|---|---|---|
| | **1965/1980** | **1980/1990** | **1990/1996** |
| GDP | 7.0 | 6.1 | 7.7 |
| Agriculture | 4.3 | 3.4 | 2.8 |
| Industry | 11.9 | 6.9 | 10.2 |
| Manufacturing | 12.0 | 12.6 | 11.1 |
| Services | 7.3 | 7.0 | 7.4 |

Source: Wie 2002: 198

The economic achievements, for which Indonesia received praise from international donor institutions, depended on large-scale manufacturing as the engine of development. Business at the provincial level, mainly consisting

of small and medium enterprises, was deemed part of the informal sector and not supported, nor regulated, by the state. This became most visible in the area of textile and batik production. Thus, economic life in cities with substantial textile production, such as Pekalongan, Solo, Yogyakarta, Cirebon and Majalaya, was dying because they could not compete with textile products produced using advanced technology.

## 4. Free-trade market orientation in the era of increasing globalization (1998-2008)

The Southeast Asian economic crisis in 1997 and the Indonesian people's movement in 1998 were two factors that contributed to the end of the Soeharto regime (Emmerson 1999). When the Indonesian Rupiah plunged to its lowest level, IDR 16,000 to US$1, in June 1998, the country shifted dramatically from a 'miracle economy' to a 'melt-down economy' (Wie 2002: 195). Along with economic problems that affected Indonesia after the 1997 Southeast Asian economic crisis, political problems also occurred. President Soeharto was forced to step down from power in 1998. This resulted in a series of political reforms in the life of political parties, parliament (at national and regional level), and civil society.

Political reform as well as economic reform was part of Indonesia's commitment to the World Bank and International Monetary Fund, in return for assistance during the crisis. The five major financial commitments included solving problems arising from: short-term borrowing by the private sector, current account deficits, overvalued currency and declining export competitiveness, overvalued real estate, and last but not least, an over-extended banking system with poor prudential supervision (Robison and Rosser 1998: 1564; Indrawati 2007: 52). This package was basically designed according to a neoliberal recipe. Indonesia adapted an open-market system, with competition meant to create efficiency in the economy and it had to agree to a program of 'good governance' reforms.

Since 1998, the four presidents who have succeeded Soeharto to mid-2014 (B.J. Habibie, Abdurrahman Wahid, Megawati Soekarnoputri, and Susilo Bambang Yudhoyono) have complied basically with the open-market

policy principles and actively worked to integrate the Indonesian economy into the global market, as suggested by the World Bank and the IMF. State-owned enterprises (SOEs) started to experience liberalization. In the oil and gas sector, for instance, a new law, Bill 22/2001, aimed to provide a stronger legal basis for participation by private firms in both oil and gas production and distribution (Soesastro and Atje 2005: 28).

Indonesia had already turned to the IMF in 1966 after the political regime had changed from Soekarno to Soeharto. The major difference between the economic situation in the 1960s and in the 2000s is the existence and the role of supranational economic pacts. These supranational pacts are based on trans-national regions and have influenced free trade in Indonesia. Indonesia signed the ASEAN Free Trade Area (AFTA) Agreement in 1992, which became effective only in 2008. Indonesia has also joined other regional and global market agreements, such as the Asia Pacific Economic Cooperation (APEC), and the World Trade Organization (WTO). Between 1985 and 1990, in accordance with Indonesia's commitment to regional agreements, some tariffs were rationalized and some non-tariff barriers (NTBs) were removed, especially on import licensing and import monopolies (Feridanusetyawan and Pangestu 2003: 52). However, for essential sectors, such as agriculture (sugar, wheat flour, soybeans, garlic, cloves, milk and dairy products) reforms have been slow. Regulations of the WTO and AFTA are formal and binding for members, while those of APEC are voluntary. This means that the country must follow the agreement, including commitments for reducing or abolishing non-tariff barriers in international trading (export-import activities).

The deregulation in the post-Soeharto era impoverished small- and medium-scale enterprises in provincial towns, which had already been hit badly by earlier deregulation policies. If in the previous period in the 1970s the batik industry had to compete with technology from textile manufacturers, in the post-Soeharto liberalization era it has to compete with printed batik products from other countries, which flooded the Indonesian market. This has made competition tougher. One other outcome was that the construction industry was identified as the most corrupt sector, due to state protection. On advice from the World Bank and the IMF this sector has

been targeted for the removal of state protection.

The multilateral agencies assisted in the setting up of institutional reform in the construction sector. Bill No. 18/1999 was introduced to allow foreign construction companies to tender for construction projects in the country. A new open tender system started in 2007, making competition for construction projects harsher, not only between domestic versus global players, but also among entrepreneurs in provincial towns. The law allows for contracts for projects to be open to entrepreneurs who reside in areas outside the administrative jurisdiction of the project, thus no longer restricted to local companies.

The fall of Soeharto paved the way for the reorganization of political life in Indonesia. The first four Indonesian presidents after Soeharto began a process of wide-ranging political reforms: a multi-party system, free and fair elections for members of parliament and the presidency, military and bureaucratic reform, and decentralization and liberalization of political activities in every level of society. The Indonesian military, the most important political actor during the Soeharto era, was forced to accept the reform agenda aimed at minimizing their social and political scope, including in business (Rinakit 2005: 126).[19] The military reform has been an ongoing process with no visible end due to strong resistance from the military itself, especially in regard to its business activities.

Centralization and the authoritarian manner in which the regions were managed came to an end with decentralization and the Regional Autonomy law that came into effect in 2001. It devolved power to the regions and, according to a World Bank document, it was intended to "bring government closer to the people" (World Bank 2003b). Decentralization was also deemed to increase popular participation in public life, and to nurture a strong and healthy civil society (Ibid.).

The decentralization law was revised in 2004 and fully implemented in 2005. One of the articles established a system of direct elections for local leaders at the provincial and sub-provincial/district and city levels

[19] In the early years of Reformasi in 1999, the number of military-background governors and sub-provincial leaders declined in comparison to the number in the New Order era. There were 15 military officers (57.7%) out of 26 gubernatorial positions, and 119 (40.6%) out of 293 district heads/mayors (Rinakit 2005: 150).

(governors, district heads (*bupati*) and city mayors). This replaced the system used during the New Order, in which the Home Affairs Ministry in Jakarta selected the leaders of provinces and sub-provinces.[20] The idea behind this proposal was to limit Jakarta's control at the provincial and sub-provincial levels.

There are many debates about whether decentralization has fulfilled its basic ideals. Some scholars argue that decentralization is merely a neoliberal agenda, and having nothing to do with the betterment of people in the regions (Aspinall and Fealy 2003a; Harris et al. 2004; Schulte Nordholt and Van Klinken 2007; Schulte Nordholt 2004). Others argue that decentralization has facilitated the emergence of ethnic sentiments that resulted in violence in some regions (Van Klinken 2007); still others state that it has enhanced the power base and rent seeking capacity of 'local strongmen' (Sidel 2004; Savirani 2004) and improved the position of those who have strong connections to New Order oligarchy figures (Hadiz 2004b). Especially, the latter two consequences have a direct impact on state-business relations.

At the level of society, Reformasi facilitated real freedom of expression so that citizens could channel their voices in many ways. Although Eldridge (1995) and Uhlin (1997) argue that the radicalization of civil society had begun already in the early 1990s, it peaked during the Reformasi era. The quality and quantity of civil society organizations (CSOs) and activities in the public sphere increased significantly, as did the number of broadcast media (TV and radio stations). During the administration of President BJ Habibie, licenses were issued for five new commercial television stations and more than 900 new commercial radio stations (Kitley 2003: 108). Whereas during the New Order ethnic diversity of traditions, *adat*, was accepted only in a depoliticized form—as the expression of local cultural and artistic forms (Ibid.)—after the demise of the New Order regime, voices from indigenous communities (*masyarakat adat*) in the regions began to address social, economic, and political issues. Kosel (2006: 175) notes the

[20]The new political arrangement for the regions was followed by fiscal rearrangements and resource allocations between the national and regional administrations. Resource-rich areas receive more economic benefits from the national government.

increasing concern for indigenous rights, especially regarding issues such as the struggle for rights to manage the natural resources of regions locally, a right that had been marginalized since the 1980s. The Indigenous Peoples Alliance of the Archipelago (*Aliansi Masyarakat Adat Nasional,* AMAN) was established in 1999, as a new form for self-esteem and assertiveness of indigenous peoples. But also in the towns and cities of Java such as Pekalongan, numerous local civil society organizations emerged, defending the rights and interests of particular local groups.

This bewildering array of actors has added a complex layer to the formal policy making process, creating a new political landscape where it is harder to draw a distinct political map and to determine respective positions. For example, it has become more difficult to assess who is where, in which camp, part of which alliance, and how much power each actor has. Consequently, this creates a high level of uncertainty among business actors who need to deal with politicians to obtain access to business contracts. During the Soeharto era, the authoritarian system clearly defined political actors who dominated the playing field, namely, the bureaucracy and the military. Thus, the playing field was more predictable to businesspeople. They knew who they needed to deal with to get things done. In contrast, after Reformasi, a higher degree of uncertainty appears to be one of the most important features of the transition in Indonesia. Moreover, the business climate at the local level since decentralization is said to be unfriendly to investors (Brodjonegoro 2004). Kuncoro (2006), who studied the cost of doing business (COBD) in 11 districts in Indonesia, shows that firms have been reluctant to pay bribes due to political uncertainty and fragmentation of actors at the local level. This then causes a "fragmentation of the bribe collection system at the local government level" (2006: 27). In the following chapters, it will be explored how people deal with this uncertainty at the Pekalongan city level.

## Conclusion

The discussion of state-business relationships over the past decades, focusing on the economic policies of the central state, is necessary in order to understand how national politics influenced the way business is done at the local level in Indonesia. Since independence, with a powerful central state, Jakarta has mainly determined the political orientation of local parties and bureaucrats and dictated economic policies. Nevertheless, the historical overview makes clear that businesspeople and state and political actors have always been part of a close, mutual relationship. Indeed, in order to do business, entrepreneurs have had to work through state and political actors, especially to gain access to business projects and state budgets; simultaneously, the state needed the support of these entrepreneurs to make their policies work.

Throughout Indonesian history, shifts in national political orientations changed how the game was played locally. During the Soekarno era, political parties and the national parliament controlled the policy-making process regarding economic development. Thus, businesspeople allied themselves to political parties to access business opportunities. During The Soeharto era, where a growth policy was the main priority, it was the ruling Golkar party, the military and the members of the bureaucracy, through their corporatist strategies, who dominated and controlled business access. In this period, the three main political actors (Golkar, the military and the bureaucracy) were the ones that businesspeople approached both at the national and local level. As a result, during this era, cronyism flourished, and it took different forms depending on which of the three political actors was involved.

After the political shift in 1998, a multiparty system was enacted, a separation of national and local government through decentralization took place, and interest groups and civil society organizations gained influence. Party politics again play a more active role in the policy-making process, including in economic policies. We can expect that what happened during the 1950s will be partly repeated; namely, that politics, including political

actors, such as political parties, will play a greater role in business, and that businesspeople will use political parties and party connections to approach state actors. However, political parties are not the only actors: locally elected parliamentarians and district heads, who fulfilled 'rubber stamping' roles during the New Order, now have to be reckoned with; and business associations, freed from the corporatist restrictions of the Soeharto era, are using the new freedoms to organize themselves better to try to gain access to business concessions. Thus, there has been a multiplicity of political actors both at the national and the local level, which also influences the operation and complexity of businesses.

As a result, in the Reformasi period, the increasing number of political actors with whom businesspeople have to deal with has increased, as has the importance of networks as a way to do business at all levels. Local business actors now must deal with a complex array of new decision makers: politicians in the local parliament, district heads and mayors, and bureaucrats working in district administrations. The reforms and political changes at the national level had an impact at the provincial level. The growth of democracy has led to a multiplicity of political actors. Power in provincial politics is now in the hands of the local leaders, such as district heads (*bupati*), city mayors, and the regional legislatures. In the meantime, as trade is opened for competition and no longer protected by the state, business sectors that have been liberalized have to learn to deal with fiercer competition. Where the batik sector was already used to economic reforms, the construction sector has only recently started a liberalization process.

Networking with local political actors has become increasingly important to local entrepreneurs. Yet, we do not know much about how this works out in every day practice. It is often assumed that once national policy is set, its implementation will be congruent to the design and its execution will be uniform nationally. As we will see in Chapters Five and Six, tougher business and political competition, both at the national and at the local level, means that non-economic factors, such as family connections and ethnicity, play an even greater role than before in determining who gets access to lucrative contracts and for what price. As a result, there is an expansion of non-economic actors who help provide access to projects and

business opportunities. How this exactly shapes state-business relations will be shown in Chapters Five and Six. First the social, economic, and political configuration of Pekalongan will be explored and described in the next two chapters. However, we know very little about how economic decisions in Jakarta are put into practice in provincial towns in the post Soeharto era. This is the concern of this thesis, and in the following chapters it will become clear that implementation of policies is a highly political and contested process.

# Chapter 3

# CHAPTER 3
# PEKALONGAN, A BUSINESS-DRIVEN PROVINCIAL TOWN

Pekalongan has been a trading city for over two centuries. Since independence, it is best known for its production of batik and its large number of small businesses. Compared with other provincial towns studied by the research group 'In Search of Mid dle Indonesia', such as Kupang and Cilegon, Pekalongan shares typical features of provincial towns[21], in terms of its size and its regional, economic and political functions. However, it differs from these towns because of its strategic location, the nature of its economic activities, and its cultural diversity. Unlike Kupang, which depends for its existence largely on the state with a local budget of 71,6 percent derived from state funds (Tidey 2012: 34), Pekalongan is and has been primarily a business and trading town. In terms of Gross Domestic Regional Product (GDRP), the industry sector of Kupang contributes only 18.6 percent, which is half that of

[21] This research takes place at the third level of government administration. There is the national level, then the province headed by a governor, and the third is the district level. Large cities are on the same administrative level as the district. Pekalongan area consists of two administrative entities: "city of Pekalongan" and "district of Pekalongan". However, my research relates to the city of Pekalongan. I refer to Pekalongan as a provincial town, following the usage by Hidayat and Van Klinken 2009. It means that it lies outside the major centres. I also refer to it as situated at the provincial or local level.

Pekalongan (36.4 percent) and much less than for instance industrial Cilegon (64.8 percent) (Ibid.). Cilegon, like Pekalongan, is a business town, but Cilegon has many large manufacturing industries such as the steel factory of Krakatau Steel (Naafs 2012). Cilegon used to have a label as 'Dollar City' or *Kota Dollar* due to industrial expansion in the 1990s (Naafs 2012: 51), and it attracted a large number of workers form outside. Compared to the industrial city of Cilegon, enterprises in Pekalongan are mostly small and medium scale, many of them based on home industries using labour from the town and its close vicinities.

This chapter describes the business aspects of Pekalongan, focusing on the main business sectors, batik production and construction. I begin by describing the basic economic features of the town and map the social, cultural and religious background of its population, all of which have influenced the economic life of the city. I provide background information about batik production and the construction sector. I will go into the history of the two industries, explore relations with the state, and reconstruct the protection and liberalization policies. In the final section, I describe the geographical divisions to give a sense of how batik business activities are spatially embedded in the city.

## 1. A Socio-economic, socio-cultural and socio-political profile of the 'City of Batik'

### a. A business town

The name 'Pekalongan' refers to three entities: the city of Pekalongan; the district (*kabupaten*) of Pekalongan, consisting of four sub-districts (*kecamatan)* and 47 urban wards (*kelurahan*); and the former *karesidenan* or region of Pekalongan. It is also used to describe the socio-cultural tradition of trading by people who live along the coast (Mas'oed et al. 2000: 225).

Pekalongan town covers a relatively small area; it takes less than 20 minutes to travel by motorcycle from the northern border of the city to the southern edge, and 10 minutes from the eastern border to the west. The town has a little more than 300.000 inhabitants distributed throughout an area of about 45 square kilometres, while the district of Pekalongan has a population

of three times this size (912,356), distributed throughout an area of 836 square kilometres (BPS Kabupaten Pekalongan 2010).

When you enter Pekalongan from the northern coastal road, either from the east or the west, you encounter a large billboard on the roadside that reads: 'Welcome to Pekalongan, the City of Batik'. The word 'batik' here serves two purposes, one as the city slogan, the acronym of *bersih, aman, tertib, indah, komunikatif*, 'clean, safe, orderly, beautiful, communicative;' and it is also branding the city as the centre of batik production in Indonesia.

For centuries, Pekalongan has been known as a trade hub, and as a result it is home to various kinds of small businesses. According to statistics of the city Central Bureau of Statistics (BPS), the largest economic sector is manufacturing and trading, followed by construction, as shown in table 3.1.

Table 3.1 GDRP Pekalongan 2008-2010 (In IDR million)

| Sectors | Year | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| **Agriculture** | 257,096.7 | 257,482.5 | 261,201.1 |
| **Mining** | 0 | 0 | 0 |
| **Manufacture** | 646,107.7 | 690,347.1 | 738,516.2 |
| **Electricity, gas and water supply** | 54,348.3 | 55,903.8 | 63,232.3 |
| **Construction** | 473,671.3 | 527,243.5 | 584,499.1 |
| **Trade** | 749,770.7 | 803,633.8 | 897,131.3 |
| **Transportation and communication** | 377,582.9 | 398,189.3 | 435,295.2 |
| **Financial institutions (bank and non-bank)** | 247,152.7 | 260,055.6 | 278,925.9 |
| **Services** | 418,889 | 483,845.7 | 540,988.1 |
| **Total GDRP** | 3,224,619.3 | 3,476,701.3 | 3,799,789.2 |

Source: BPS Kota Pekalongan 2010

Manufacturing contributed one fifth (20 percent) of the total GDRP in Pekalongan between 2008 and 2010; the contribution of the trading sector

was a bit higher (23 percent in 2008 and 23.6 percent in 2010).[22] Textile production and the packaging of fish are the two main activities in the manufacturing sector. Textiles include the industrial production of cloth printed with batik motifs (i.e. *sarong* and *slendang*) and garments, using automatic and modern looms.[23] According to statistical data of Pekalongan city and Pekalongan District, in 2010 there were at least 24 textile factories located in the city and district of Pekalongan.[24] Four of the country's largest manufacturers of *palekat* (a sarong with a coloured checked pattern and worn by men, particularly Muslim men when they pray, are located in the region of Pekalongan. One of them is P.T. Pismatex, which produces the 'Gadjah Duduk' brand, famous nationally and in Asia. The number of workers in this factory is 3,500.[25] Export from Pekalongan (both from the city and from the Pekalongan districts) consists mostly of these textile products—garments, printed sarongs with batik motifs and *palekat* sarongs.

The small-scale traditional batik industry which I focus upon is not included in the statistics.[26] The category of textile production (i.e. manufacture) never includes batik (Hill 1995: 84). Thus batik production is not categorized as manufacture in the formal statistics as presented in table 3.1. Boucherie included batik in the weaving sector, making these comments about official statistical data: as "hazardous, … sketchy [and] and other information is not always reliable" (1969: 55). It was difficult for me to collect official data on

[22] A substantive part of this 'trade' in Pekalongan concerns batik products and other textiles, as well as the inputs for these industries.

[23] The word batik in this thesis refers to any textile with a batik pattern and to the technique of manual production. In this way I take the definition of local batik producers as leading. The traditional batik producers do not regard the machine-based production as batik. However, statistics do not differentiate between printed and hand-made batik and classify most traditional batik production under trade.

[24] There are no official data available on the number of workers in these factories. Besides, these factories are not the focus of my thesis.

[25] http://www.gajahduduk.com/ina/pismatex/

[26] According to Indonesian statistics, the category of 'manufacturing' includes activities involving "processing materials and transforming them mechanically, chemically, or manually into finished or semi-finished products and/or converting them into other goods having higher value and closer to the final user". (Source: www.bps.go.id accessed 20 May 2012). Using this definition, the small-scale traditional batik industry should also be part of manufacturing, nevertheless, it is not included in the manufacturing statistics.

batik production, as the industry is mostly home-based, consisting of typically one to four workers, and businesses are not always stable: during the peak season they exist, during the slack season many disappear.

Figures on the contribution of the construction sector to the GDP of Pekalongan are easier to find. The statistics book of city administration gives clear data. Based on the statistics book, this sector contributed 15.9 percent to Pekalongan GDRP in 2008, 16.3 percent in 2009, and 17.5 percent in 2010.

Pekalongan also has five jasmine tea processing centres. According to Harjoko, the owner of the famous Pekalongan Nutu tea, a large number were forced into bankruptcy after the Asian economic crisis in 1997-1998. The number of tea processing plants declined at least by 50 percent. Despite this decline, tea production is still part of economic life, and at dawn and throughout the day, when the tea makers mix the tea leaves with jasmine blossoms, the fragrance of jasmine wafts through the air, an aroma that one comes to identify with Pekalongan.

The Pekalongan tea factories get their jasmine from the jasmine fields along the north coast of Java, including the north coast of Pekalongan. The area of the jasmine fields declined between 2004 and 2009, due to flooding from the sea. The fields of jasmine blossoms supply not only the tea factories in Pekalongan but also the factories in other cities, and those that sell the flowers for use in religious offerings. Whenever I travel from Pekalongan to Yogyakarta on a small mini bus, my luggage is usually stacked in the back of the van, squeezed amongst large styrofoam boxes containing jasmine. A former jasmine farmer told me that during the heyday of jasmine farming, ten years ago, fresh jasmine was even exported to Singapore.

There has been growth in the establishment of financial institutions in Pekalongan. During the period of my fieldwork in 2008, several national banks, including Sinar Mas and NISP, opened new branches in Pekalongan. As of July 2010, Pekalongan is home to 24 branches of different banks. The Indonesia Stock Exchange (IDX) even opened a Centre of Share Information in 2008, making Pekalongan the only district in Central Java to have such a centre. After the opening of the information centre, five Jakarta-based financial security companies—Tri Megah Sekuritas, Valburry Securities, Sarijaya Sekuritas, Sinar Mas Sekuritas, and E-Trading Security—also opened branches

in the city. They are share-brokerage companies and facilitate investment in the stock market by local Pekalongan people. According to the definition of the Indonesian Central Bank, the presence of many security companies in a city is an indication of a vibrant business climate, and offers potential for new business activities. The head of the Centre of Share Information, Fanny Rifqy, confirmed to me that Pekalongan is popular with investors, indeed according to her it is at the top of the list of financial growth centres in Central Java.

Since the 1990s, the service sector has also become important to the city's growing economy. Two large shopping centres have opened, one in the main square, *Alun Alun*, and another in the western part of town. In 2009, the French hypermarket Carrefour entered the city, and several international starred franchise hotels and a Holiday Inn were built during the time of my fieldwork in 2008 and 2009.

From batik to banking, jasmine to stock markets, from Nutu to Carrefour, Pekalongan's GDRP has grown, and much of the growth has been driven by the private sector. But these developments and the descriptions and statistics summarized in table 3.1 form only one part of economic life in Pekalongan. There are other sectors that are not recorded in these tables, yet are the backbone of the Pekalongan economy. This is the informal sector. We have to realise, that the traditional small-scale batik home industry is just as important to the economy as the large batik producers, such as Gadjah Duduk.

## b. A multicultural society

A salient feature of Pekalongan's economy is the cultural diversity of the business players. A famous Indonesian Islamic scholar, the late Nurcholish Madjid, labelled Pekalongan an 'Indonesian synthesis' where multiculturalism has blossomed in harmony. The synthesis is symbolized by the batik motifs, which are unique to coastal batik (batik pesisir); Chinese ornaments, and bright colours dominate, contributing to the distinctive identity of coastal batik. The motifs on batik produced in the royal towns of Yogyakarta and Solo, by contrast, are geometrical and symmetrical and sometimes only in basic brown and white tones.[27]

[27]Indonesian batik in Java can be distinguished into two types: Palace (Kraton) batik and Coastal (pesisir or pasisir) batik. Palace batik refers to batik produced in the area of Solo and

Other historical influences have contributed to the formation of the famous Pekalongan batik. Eliza van Zuylen, a woman of Dutch descent who lived in Pekalongan in the mid-19th century and ran a home-based batik production business, is a legend in Pekalongan. Her design has now been taken up as a typical Pekalongan batik, that is, a brightly-coloured flower bouquet (See Picture 3.1). The multiculturality or 'Indonesian synthesis' can also be observed in local culinary, which is a mixture of Chinese, Arab and Indian influences. *Nasi Kebuli,* or 'Kebuli' rice is one of the famous Pekalongan dishes, influenced by the taste and spices from Arab migrants. Tauto Pekalongan is a dish, which, according to the local people, has a Chinese influence.

Because of its strategic location on the northern coast of Java, Pekalongan was a port city that attracted sailors throughout the archipelago and from further afield, including China, India and the Hadramaut, in the south of the Arabian peninsula. Arab merchants started to settle in Pekalongan in 1846 (Vuldy 1985: 95; Majlis, et al 2004: 12). Chinese settlers came in several migration waves during the 19th century, hence the existence of three groups of different origins: Hokian, Kei and Bagan. The Hokian were the first to arrive and came from the Hokian area of mainland China; the Kei came next, also from mainland China, while the third group, the Bagan, came from Bagansiapiapi in West Sumatera where they had previously settled. The Hokian have been active in the textile industry, the Kei in retail of chemical dyes, and the Bagan in fisheries (Thohir 2005: 91).

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Yogyakarta, the area of kingdomship (Vorstenlanden) in the past. Coastal batik is produced in the area of northern coast of Java, such as Cirebon, Pekalongan, Lasem, Tuban and Madura. The differences between the two are in terms of the colour, patterns and their use. The Palace batik uses conservative colours, such as brown or blue; coastal batik applies brighter colours—red, green, and yellow. The pattern in palace batik is more symmetrical, geometrical and repeated, while in coastal batik the pattern can be anything, such as flowers, butterflies. The patterns in palace batik have a sacred meaning and specific motifs used to worn only by the royal family—specific motifs for different occasions in the cycle of life, occasions such as marriage and death. The motifs of coastal batik have no sacred meaning or significance.

**Picture 3.1. Bright Colours of Pekalongan Batik**

Photos by Author

There are two groups of Indonesians of Arab descent in Pekalongan: the Haba'ib and the non-Haba'ib. The Haba'ib are Arabs who claim a direct lineage to the Prophet Muhammad, and the non-Haba'ib are not descendants of the Prophet. The first group is usually involved in religious affairs, while the second group in trading. The non-Haba'ib have formed an association called Al Irsyad, which is quite active in the education and health sectors in Pekalongan (Mobini-Kesheh 1999). The best private hospital in Pekalongan, Siti Khadijah Hospital, is run by the Al Irsyad Foundation. Habib Luthi, a Haba'ib who is a famous Islamic teacher in Pekalongan, is also popular in Central Java and throughout Indonesia, especially within the community of orthodox/ traditionalist Muslims.

There are no official statistical data from the Indonesian Bureau of Statistics regarding ethnic groups in the population, thus it is difficult to determine the current number of Indonesians of Arab and Chinese descent living in Pekalongan. A rough estimate of the number of Arab Indonesians is less than 10,000, and of Chinese Indonesians, approximately 10,000-11,000. According to these estimations, the Indonesians from Arab and Chinese descent make up approximately 5 percent of the total population of Pekalongan. One of the Chinese batik producers in Pekalongan, Oey Soe Tjoen family of Kedungwuni, is famous in the world of Indonesian batik, with a reputation as the finest batik producer in the 19th century (Elliot 2004: 118). His descendants still produce

batik, but the original enterprise experienced bankruptcy during the financial crisis.

The Arabs and the Chinese have been involved in batik production since the mid-19th century, when the use of the copper stamp in batik making was invented (Dobbin 1991: 253). De Kat Angelino, a colonial labour office inspector, noted in 1930 that the ethnic composition in batik producers at that time in Pekalongan consisted of 236 pribumi enterprises, 86 owned by Arabs, and 60 by Chinese (De Kat Angelino 1930). During colonial times, besides producing batik, Chinese entrepreneurs held a monopoly on the distribution of cotton and chemical dyes used in the industry, and that monopoly lasts until today. The ethnic Arabs have always dominated the marketing of batik as wholesaler and retailer.

It is not clear whether De Kat Angelino included all phases of batik production in his analysis or only focused on the production of batik and not on the distribution of supplies and raw materials (procurement) and wholesale and retail.

In 1930, De Kat Angelino found almost 62 percent of the people engaged in 'batik production' were pribumi, 22 percent were Arab and 16 percent of Chinese descent. Among the 349 batik producers that I surveyed in 2008 and 2009, the majority (95.1 percent) was Javanese pribumi, 3.2 percent was of Arab descent, and a few were Chinese (0.6 percent). This means that after almost one century, the involvement of the various ethnic groups in the production of batik might have changed slightly.

Today, the production of batik is almost solely done by Javanese. The Chinese own 90 percent of the shops that provide raw materials for batik production, including cotton fabric, dyes, and wax (Dobbin 1991: 254). My own observations in 2008 and 2009 confirm the observation of Dobbin. Since history, the ethnic Arabs are involved in the marketing of the finished products, while the Javanese, who form the largest proportion of the population, are mostly wage labourers in their businesses. People of Chinese and Arab descent no longer work in production or no longer own production facilities. None of the younger Chinese batik entrepreneurs I interviewed wanted to get involved in the intricate and yet less profitable batik making.

### c. A town for orthodox (traditionalist) Muslims[28]

To understand politics and business in Pekalongan it is necessary to understand the role of Islam. Relationships between entrepreneurs and politicians often follow religious lines. The Islamic teaching that is dominant in the area belongs to the orthodox tradition, usually associated with the largest Muslim association in Indonesia, the Nadhlatul Ulama (NU). It is often referred to as 'traditional' and mixes many traditional Javanese practices with Islam, as a result of which the NU and its practice is labelled as 'traditionalist'. The orthodox or traditionalists stand in contrast to the modernists who try to enforce a more theologically pure version of religious practice.

Religious leaders (*kiayi*) are influential among these Muslims. They are leaders of Islamic boarding schools (*pesantren*), of which there are 30 in Pekalongan, where about 2,500 students live and study (BPS Pekalongan 2010). *Kiayi*[29] are influential not only in matters of religion but also in politics, and they help to ensure political stability. Their opinions are for instance the point of reference for their followers whom or which party to choose in the election. Anyone who wants to run for a political position, such as mayor, deems it necessary to gain the blessing or approval of a local *kiyai* before announcing their candidacy. For example, Habib Luthfi and Habib Bagir, and in the past the late, respected Kiayi Thohir of Medono, South Pekalongan, not only mobilise voters, but also select potential political candidates.

I happened to observe this practice while waiting to meet kiayi Habib Luthfi bin Ali Al Yahya, a famous Islamic cleric from Pekalongan, widely known in Java. Many people gathered in the waiting room, mostly carrying at least two 1.5-litre bottles of mineral water. Habib finally appeared and started to receive visitors. The first guest was a woman who kissed Habib's hand, then told him of her situation while he listened carefully. While listening, he took the bottle of water the woman had brought, opened the cap, and started to whisper something into the bottle. It took only two minutes for him to bless

[28] In Indonesia, the term 'traditionalist' in Islam is more common than 'orthodox'. It refers to religious orientation, attitude, and practices of groups of followers which involves religious practices such as visiting tombs and a strong orientation towards their leaders which they regard as 'holy' men.

[29] The term *kiyai* is Javanese for knowledgable in religion affairs, while a teach of Arab descent is called 'habib', which literally means 'the love of God'.

the water, which the woman was to drink, and take the remainder home. He told her how to drink it, how many times and when, and what prayer she was to recite. Since it was a long queue, I listened to many guests, including those who had difficulties in business.

For many orthodox Muslims, performing a religious ritual is often as much a practical and savvy business-move as it is a religious devotion or obligation. Such practices are found only in areas where the NU is strong and would not be practised by strict, modernist followers of Islam. Another ritual I observed was on the evening of the 14th day of *Syaban*, one month before Ramadan. The city was bustling with streams of people walking or riding motorbikes, all heading in the same direction. Men were wearing sarongs and *pecis* (a black cap like a fez), a dress normally reserved for prayers. I followed the crowds and soon discovered that they were on their way to Sapura, the tomb complex of the late Habib Ahmad, in Irian Street, to take part in a special celebration, a *haul*, commemorating the day of his passing. Crowds were also gathering at the house of Habib Ahmad's son, Habib Bagir, who is also a respected religious leader and influential in politics in Pekalongan.

Traditionalist Muslims are also known to be eager to go on pilgrimage to Mecca, Many people who go on the annual hajj pilgrimage to Mecca, according to many people in Pekalongan, are more concerned about its symbolism—the religious and social capital it gives them, in a Bourdieuan sense—rather than its essential meaning. By Islamic regulation, it is only compulsory to make a one-time visit, but many Pekalongan people go several times. Not just the frequency of going on pilgrimage, also the status gained as a result of it is important. People who have been on pilgrimage love to be addressed with the additional hajj title before their names, *Pak/Bu Haj/Hajjahi* (literally from 'Hajj' or *Kaji* in Javanese)[30]. According to Pak Hussein who owns a well-known chain of batik stores in Pekalongan (and many other Pekalongan people), many people who go on the annual hajj pilgrimage to Mecca do so for reasons of social status. The good religious reputation provides a good social standing, which is useful in doing business: it is easier for a *Kaji* to borrow money from

[30] In Indonesian, people who have been to Mecca and do their pilgrimage are addressed '*Haji*' (for male), and '*Hajjah*' (for female). In Javanese, the term is translated into '*Kaji*'. It applies to both male and female.

relatives and from other sources in their informal business networks, because it is believed that a *Kaji* would never default on a debt. A savvy Chinese shop owner, who sells chemical dyes, told me that he always keeps track of who makes the hajj pilgrimage every year, so that later he can address the person as *Pak Kaji*. "They like it very much if I call them *Pak Kaji*," the Chinese shop owner told me.

Pekalongan voters have always been supporters of orthodox Islamic political parties, in particular the United Development Party (PPP), the only Islamic-based party allowed during the Soeharto regime. In Pekalongan, the PPP dominated politics for 20 years, winning most seats in the national legislative body in four consecutive elections during the Soeharto era: in 1982, 1987, 1992, and 1997. The party has always won a majority of seats in the Pekalongan Regional House of Representatives (DPRD), except in 1987. This shows remarkable defiance, because we have to realise that across the vast archipelago, Pekalongan was the only administrative area where Golkar did not win a majority in all levels of government. Because people in Pekalongan refused to vote according to the demands of the Soeharto regime, the area was considered 'politically stubborn.' Their defiance is possibly related to the fact that the city had an independent business sector and therefore did not depend on government jobs. As a result local people were freer to oppose government attempts to ensure that everyone voted for Golkar.

## 2. Batik and construction: Two case studies

### a. A short history of batik production in Indonesia

The typical batik pattern is produced by applying wax to the cloth to create the area that resists the dye. Traditionally the wax has been applied manually, by means of a *canting*, a small copper bowl attached to a piece of bamboo and since the nineteenth century by a copper stamp (*cap*). In the 1970s, a more modern technique of producing batik was invented, called the stencil-printed technique, which does not use wax, but chemical substances instead (See Picture 3.2)

There are several versions about when batik-making first came to Indonesia. One of the versions is that batik making dates back three centuries

(Elliot 2004: ii). The batik cloth as we now know it was first produced during the time of the Mataram Kingdom, in the 17th century, in the royal kingdoms (called *Vorstenlanden,* during the Dutch colonial period) of Solo and Yogyakarta in Central Java (Boow 1988: 28). At that time, most batik was produced for personal use by members of the courts; it was known as 'palace batik' (*batik kraton*) (Elliot 2004: i). It was a noble cloth and the batik patterns had symbolic meanings associated with life-cycle events, such as births, weddings and death. At that time, only members of the nobility were allowed to wear batik with particular motifs related to those life-cycle events. Ordinary people also wore batik but with different motifs and of an inferior quality. The process of making batik was long and technically intricate. Because of the manual technique, the scale of production of batik was limited. It remained a side line product, something which farmers, mainly women, engaged in alongside cultivation of their rice paddy fields (Boow: 1988: 28).

This situation changed when the technique using the copper stamp or *cap* was introduced in the late 1870s by Arab and Indian merchants (Dobbin 1994: 35). The copper stamp is dipped into a shallow container of hot wax and then pressed onto the fabric. This method of applying the wax to the cloth reduced overall production time in comparison with the hand-drawn technique from 150 days to twenty days. The invention of this method provided the impetus for a more commercial orientation of batik production.

Elliot (2004: iii) mentions that information about the history of commercially oriented batik production on the north coast of Java, including Pekalongan, has been spotty. Some batik experts say that batik production in Pekalongan began around the middle of the 19th century. The expansion of the Dutch colonial administration into the area and the increase in population caused a great demand for cloth (Elliot 2004: 94). Thus, while the batik made in the court areas of Solo and Yogyakarta was for personal use, in Pekalongan the 'coastal batik' (*batik pesisir*) (Elliot 2004: i) was produced for commercial purposes. A batik artist, Fraser-Lu, made this comment about the commercial aspect of Pekalongan batik makers:

> Pekalongan batik makers have a reputation for being the most innovative and aggressive in Java. Just about anything that gives itself the name of batik

> is made here. Batik featuring both modern and traditional designs, using the *canting*, the stamp, and the machine-printed technique are produced in Pekalongan, from exquisite works of art and the finest primissima cloth, to the cheap and shoddy (Fraser-Lu 1986: 65).

All batik workers in the area of the kingdom and on the northern coast obtained raw materials for batik production, such as cotton fabrics (cambric), initially through trade with Indian merchants. After the arrival of the Dutch, trading cloth was a business that the Dutch East Indies Company (VOC) became interested in. Pekalongan batik producers only applied batik patterns to the imported cotton fabrics. Production of cotton thread existed in areas such as Tuban of East Java, but these produces did not produce enough to supply the full textile market (Brenner 1998: 34-36). The VOC seized a monopoly of the cloth trade in 1677, when the kingdom of Mataram was forced to ask the VOC for assistance in settling an internal conflict. Subsequently, Indian cloth could no longer be sold to local batik producers (Boow 1988: 28). This was followed by an attempt of the VOC to monopolise batik production as well. In 1820, batik textiles, batik workers and batik designs were sent to Holland in an attempt to teach the Dutch how to make batik. Four years later, the Netherlands Trading Society (*Nederlandsche Handel-Maatschappij*) was founded in the Netherlands and started producing and exporting imitation batik to Java. During the British occupation of Java from 1811 to 1816, Sir Thomas Raffles, the Governor-General, also sent batik products to England and encouraged the production of batik there (Ibid.). These European products did not oust local batik because the European batik was of poor quality. Batik continued to be produced locally, because the local market preferred it to the inferior European imports (Boow 1988: 30).

The invention of the copper stamp at the end of the nineteenth century led to an increase in local batik production, which further decreased the ability of European batik to compete. It also stimulated the rise of batik artisans and entrepreneurs. At approximately the same time as the introduction of the stamp, *cap,* synthetic aniline dyes were introduced to Java from Europe (Shiraishi 1997: 11). Furthermore, transportation systems, including a railway connection, expanded during that period. These developments facilitated the

growth of the batik industry in Java. Batik centres emerged primarily to the northeast of Pekalongan, in Cirebon, Lasem, Tuban, Madura, and Surabaya.

With the increasing economic potential due to these new developments (the copper stamp, a better transportation system, and growing market demands), the Chinese began to be involved in batik production in the late nineteenth century (Dobbin 1994: 3). One of their main roles was to distribute the cotton they procured from the Dutch who monopolized the import. The Arabs were also involved as middlemen, either for supplying raw material (cotton and chemical dyes) that they bought from the Chinese, or as marketeers of finished products (Dobbin 1991: 257). The majority of the producers were drawn from the local population, the Javanese.

**Picture 3.2** Three techniques of manual batik making

Left: manual technique with canting; Middle: stamp technique with cap; Right: stencil-printing, sablon As seen on the photo, the stencil is applied manually; it can also be operated by a machine, hence often called 'machine-printed' batik.

Photos by author

Decades later, in the 1970s, another technique was invented using a silk-screen stencil-printing process, known as *sablon*; the cloth produced was

referred to locally as 'batik printing'[31]. Initially, the quality was very poor, but it developed quickly. This technique raised production by 400 percent in comparison to stamped batik. At the same time, Soeharto's regime supported a policy of import substitution that facilitated the growth of the textile industry, through machine-based production (see Chapter Two). The industry expanded from making only batik cloth to producing garments with batik motifs. This cloth produced by stencil-printing meant the end for manually-produced batik. Hand-made batik became too expensive, though till today occupies a niche market.

**b. The Batik industry in Pekalongan today**

The following description aims to show the features of the batik sector in Pekalongan. As mentioned earlier, this industry does not appear in official records. An official at the office of Industry, Trade and Cooperatives told me that "Batik is the main economic activity in Pekalongan, but our data on it is quite limited. This is because production activities disappear as quickly as they spring up, making it hard to keep our records up-to-date." Because of the lack of data about the basic structure of the industry, I conducted my own survey in the early phase of my fieldwork in 2008.

The batik entrepreneurs in Pekalongan who survived the technological revolution and transformation to mechanized batik printing in 1970s regard themselves as belonging to small- and medium-scale enterprises. The scale refers to the fact that they use manual techniques to produce batik; their limited number of workers, thus, their limited production capacity compared to companies that use semi-printed and machine-produced techniques.

There are three related business activities in the production of batik (see Figure 3.1). First, the supply of raw materials, mainly cotton fabric (woven cotton) and chemical dyes for colouring; these two essentials enjoyed state protection in the 1950s. Of the eleven main shops in Pekalongan I surveyed, nine of them belonged to Pekalongan Chinese and two to Arabs. Second, the

[31] For Pekalongan batik producers, batik printing refers to stencil-printed batik and machine-produced batik. For the sake of clarity and to differentiate them, I use the terms, stencil-printed and machine-printed batik.

actual batik production. It is the process of producing batik, which involves labour, male and female, and consists of at least eight steps from start to finish.[32] The workshops produce different kinds of batik products, such as hand-drawn batik (*batik halus or tulis*), stamped batik (*batik cap*), a combination of hand-drawn and stamped batik, and stencil-printed batik. There is another actor in this production chain: a subcontractor, locally known as *pembabar*. Subcontractors are batik producers, but they depend on other people for orders, usually the bosses or *juragan*[33]. The *juragan* provides the cotton and the subcontractors are responsible for providing chemical dyes and paying their workers. My survey was on the batik producers, the largest population among the three chains. This included the *juragan,* and the subcontractors (*pembabar*).

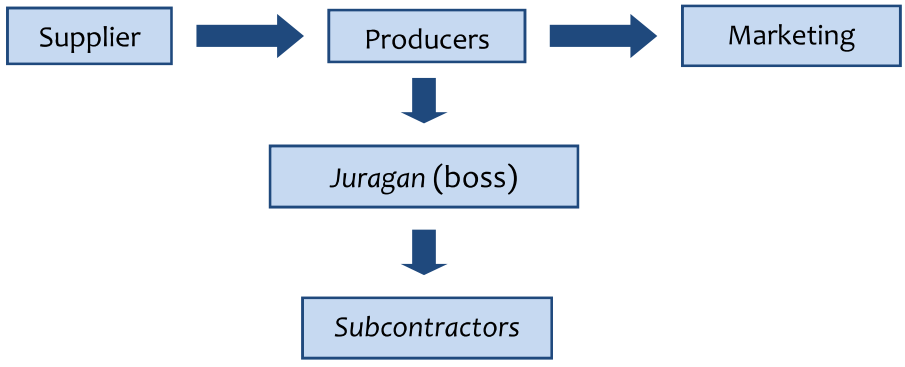
The third activity in the production of batik is that of marketeer or retailer. The statistical data of the Pekalongan government includes the retailers of batik under the heading of entrepreneurs. Many batik entrepreneurs are only traders (*bakul*), not producers; some *juragan* also trade and sell their products, with outlets in their houses or in the markets in Pekalongan. The retailer is in the most advantageous position in the chain of batik production. The profit margin for selling batik is around 20-30 percent of the cost price.

[32]There are eight main steps in the process of making fine batik (batik tulis). Some areas, such as Solo and Yogyakarta, have even longer processes. The first step is drawing the design. The second is waxing and filling out the empty areas of the design. The two steps are repeated on the back of the cloth, so both sides have a similar design, which is to stop seepage of the dye. The third is covering the parts that are not covered by wax. The forth step is the colouring process. This is the first colouring, usually with the colour indigo for Solo and Yogya batik; in other areas, it is a matter of colour selection. The fifth step is removing the wax by either boiling or scraping it off the cloth. To the clean areas that have been scraped/ boiled, another colour is applied, and the area which has been coloured is covered by coarse wax. If more colours are needed, the process of colouring is repeated. In Solo and Yogya, this color is usually soga (brown). After the second colouring is done, another round of scraping/ boiling is conducted. The fine batik cloth is ready, after drying it outside (Boow 1988: 18). In Pekalongan there is one special step conducted, namely, nyolet: specific areas of the design are brushed with a special brush using a specific technique. The Pekalongan batik producers told me that this technique can only be found in Pekalongan.

[33]Many *juragan* (batik bosses) in Pekalongan receive orders from bigger batik enterprises, such as Batik Keris and Danar Hadi, in Solo and Jakarta. It means they are the subcontractors of batik retailers in Jakarta and Solo.

'Their hands are clean but they get more money', said one batik producer extolling the advantages enjoyed by the marketeers. Having dirty hands refers to the colouring activities in the batik-making process. Due to the chemical substance in the colour, the nails of workers are stained. I noticed this often when shaking hands with batik producers who are involved directly in the colouring process.

**Figure 3.1** Roles in batik production




To return to my survey, the results in the following table show that 0.3 percent are suppliers, 78.2 percent producers (including subcontractors), 10 percent are retailers, and 11.5 percent consists of entrepreneurs who are involved in more than one activity. Almost 48.7 percent of the producers responded to my survey saying that they are subcontractors. This means that the largest section among the Pekalongan batik entrepreneurs are subcontractors.

Although the majority of batik producers in Pekalongan are subcontractors with a high dependency on orders from outside Pekalongan, there are a number of batik entrepreneurs who are *juragan* and especially these are active in the batik associations. Based on the survey, 13.5 percent of the batik entrepreneurs (47 entrepreneurs) joined a batik business association, such as the Pekalongan Batik Lovers Association (*Paguyuban Pencinta Batik Pekalongan,* PPBK), the Pekalongan Batik Handycrafter (*Pengrajin Batik Pekalongan*), and the Kauman Batik Producers Community (*Paguyuban Kampoeng Batik Kauman,* PKBK). Another association with many members, and officially recognized, is the Indonesian handicraft exporter (ASEPHI or *Asosiasi Eksportir Handicraft Indonesia*).

Table 3.2 Roles of entrepreneurs in the batik production cycle

| Roles of entrepreneurs in percentage | |
|---|---|
| Supplier | 0.3 |
| Producers (incl. subcontractors) | 78.2 |
| Retailers | 10,0 |
| Suppliers and producers | 0.6 |
| Producers and retailers | 10.6 |
| Supplier, producer and retailer | 0.3 |
| **Total** | **100** |

Source: Survey data 2008-2009

The engine behind the batik associations are young entrepreneurs. From the survey, in terms of age, the majority of entrepreneurs in batik production are between 31 and 50 years old (44.2 percent). Entrepreneurs aged between 31 and 40 (29.8 percent) are the engines of batik associations, and these members are most active. Most of the owners of the current batik enterprises are second- or third-generation entrepreneurs who inherited their parents' enterprises. The shift in ownership influenced the types of strategies that these entrepreneurs applied in increasing the scale of the business compared to that of their parents. The strategies among the younger generation of batik entrepreneurs are generally more progressive. They use associations, exhibitions, and trips abroad to promote their products and their business. I will explore this further in Chapter Five.

The majority of the entrepreneurs graduated from junior or senior high school, including both secular schools and religious or Islamic high schools. Of the total number of batik entrepreneurs interviewed, 11.6 percent did not go to school or did not finish elementary school. One batik entrepreneur who did not finish high school told me that it was easy to make money in Pekalongan, as long as you are willing to work hard. In the past, parents preferred their children to help with the family business rather than to go to school. Even now, if parents send their children to university, including universities outside Pekalongan, they expect their children to return and assist them with the family business on completion of their study. The relatively low level of education among the batik entrepreneurs in Pekalongan relates to the fact that generally

Pekalongan people do not see the fruit of education to improve one's quality of life. Anyone can literally make money with batik without formal education. The late Iwan Tirta, who used to be an influential batik producer, expressed how much batik making is ingrained in the life and culture of Pekalongan people: "Pekalongan people are able to make batik since they are born," The skills depend less on education. A batik worker can just start working in a production house, as long as he or she can do batik making (hand-written work for females, stamped for male workers); and this partly explains the fluidity and continuity of the labour system[34].

Table 3.3 Highest level of education of Pekalongan batik entrepreneurs

| **Level of Education (in percentage)** | |
|---|---|
| None or did not finish elementary school | 11.6 |
| Elementary school | 24.1 |
| Junior High School | 20.1 |
| Senior High School | 33,0 |
| Diploma | 2.6 |
| Undergraduate | 8.6 |
| **Total** | **100** |

Source: Survey data 2008-2009

During the survey, I also tried to find out about monthly income, which was a difficult question for the batik producers, since they count the cost of production, turnover and net income only once a year. They do this after the *Eid Fitr* festival, the Muslim celebration at the end of the fasting month and the busiest month in the batik production calendar, when everyone buys new clothes. To make an estimation of gross monthly income, I estimated the amount produced per month and the price received. I also accounted for differences between low and peak seasons: the low season being after Eid Fitr

[34]My son's nanny was coincidentally from the Pekalongan area. Before she worked as a nanny, she said she was a batik worker, making fine batik. When I asked her whether she learnt it formally, she said no, her mother was a batik worker and she used to watch her making batik. She just learnt from her mother. She told me that all the girls in her village belonging to her generation can make batik.

and the Hajj period, and the peak season taking place during school holidays and Ramadan before Eid Fitr.

Table 3.4 Batik producers' production gross turnover during low and peak seasons

| Scale of the enterprises | Gross income per month | Peak Season | | Low Season | |
|---|---|---|---|---|---|
| | | Number of entre-preneurs | % | Number of entre-preneurs | % |
| Small | None (production is closed) | 0 | 0 | 44 | 12.6 |
| | Less than IDR 1 million | 14 | 4.0 | 17 | 4.9 |
| | IDR 1-10 million | 92 | 26.4 | 125 | 35.8 |
| Medium | IDR 10-50 million | 139 | 39.8 | 113 | 32.4 |
| Large | More than IDR 50 million | 85 | 24.4 | 32 | 9.2 |
| | Missing data | 19 | 5.4 | 18 | 5.1 |
| | **Total** | **349** | **100** | **349** | **100** |

Source: Survey data 2008-2009

I categorized the gross monthly income turnover into four groups, from no production (which means no income) to a gross income turnover of more than IDR 50 million (US$ 5000). According to bill 6/2008 on small-and medium-scale enterprises, a small-scale business is a company having a total annual income of between IDR 300 million and 2.5 billion; with medium-scale enterprises having an annual rate income between IDR 2.5 and 50 billion. If we analyse the data above using the formal category of regulation, all Pekalongan batik enterprises are small-scale. This categorization may apply in the modern, formal sector of manufacturing, but I judge it too general and unhelpful in trying to understand the informal sector. It assumes that a company will operate with a steady output and income. I therefore regarded enterprises with an income during the peak season of between IDR 0-10 million as small-scale; those between IDR 10-50 million as medium-scale; and those with an

income of more than IDR 50 million, as large-scale (Table 3.4). During the peak earning season, we can classify batik entrepreneurs in Pekalongan as 30.4 percent small-scale entrepreneurs, 40 percent medium-scale, and 24.4 percent large-scale. During the low season, the percentages are quite different: small-scale entrepreneurs make up 53.3 percent, medium-scale 32.4 percent, and large-scale 9.2 percent of the total number of enterprises.

In 2008, Indonesian batik experienced a 'resurgence' in sale and popularity of batik, locally called the 'batik boom'. Previously, Indonesians wore batik for formal occasions only, or informally at home—where most of them wore a cool, loose batik dress (women a *daster*). Batik was also considered attire for older people. After the re-emergence of batik consumption after 2008, Indonesians across generations started to wear batik, and now they wear it not only in formal occasions but also casually. There were at least two incidents which sparked this resurgence. The first occurred when Malaysia patented a batik pattern as its own national heritage. It included this in its promotional tourism advertising that was broadcasted worldwide. This claim sparked a diplomatic debate between Indonesia and Malaysia and became a cause for concern for Indonesian batik communities (Primanita and Sagita 2009). At around the same time as the disagreement with Malaysia, the work of a young Indonesian fashion designer, Eduard Hutabarat, inspired a new interest in batik. Through his fashion label, 'Part One', Hutabarat promoted the use of batik material with his up-to-date designs popular among young people (Usman 2003). Both incidents became a central part of campaigns for the reintroduction of traditional batik products.

On 2 October 2009, Indonesian batik was inscribed on the Representative List of the Intangible Cultural Heritage of Humanity[35]. This also has led to the unprecedented popularity of batik across the country; everyone from Java to Papua wanted to wear batik, which increased the demands for batik. Batik has also become more popular and in government offices[36]; batik production centres sprouted in many regions; batik festivals have become routine, sponsored by local governments in Solo and Semarang in Central

[35]www.unesco.org/culture/ich/RL/00170.

[36]This tradition started in 1982 when Jakarta's governor agreed that civil servants could wear batik in the office.

Java, in Yogyakarta, and in Jember in East Java. Batik making has become part of the local curriculum at elementary schools in Central Java. This popularity is good for the industry, and entrepreneurs have increased the scale of batik production, including in Pekalongan.

### c. Economic and geographical disparity in Pekalongan's batik sector

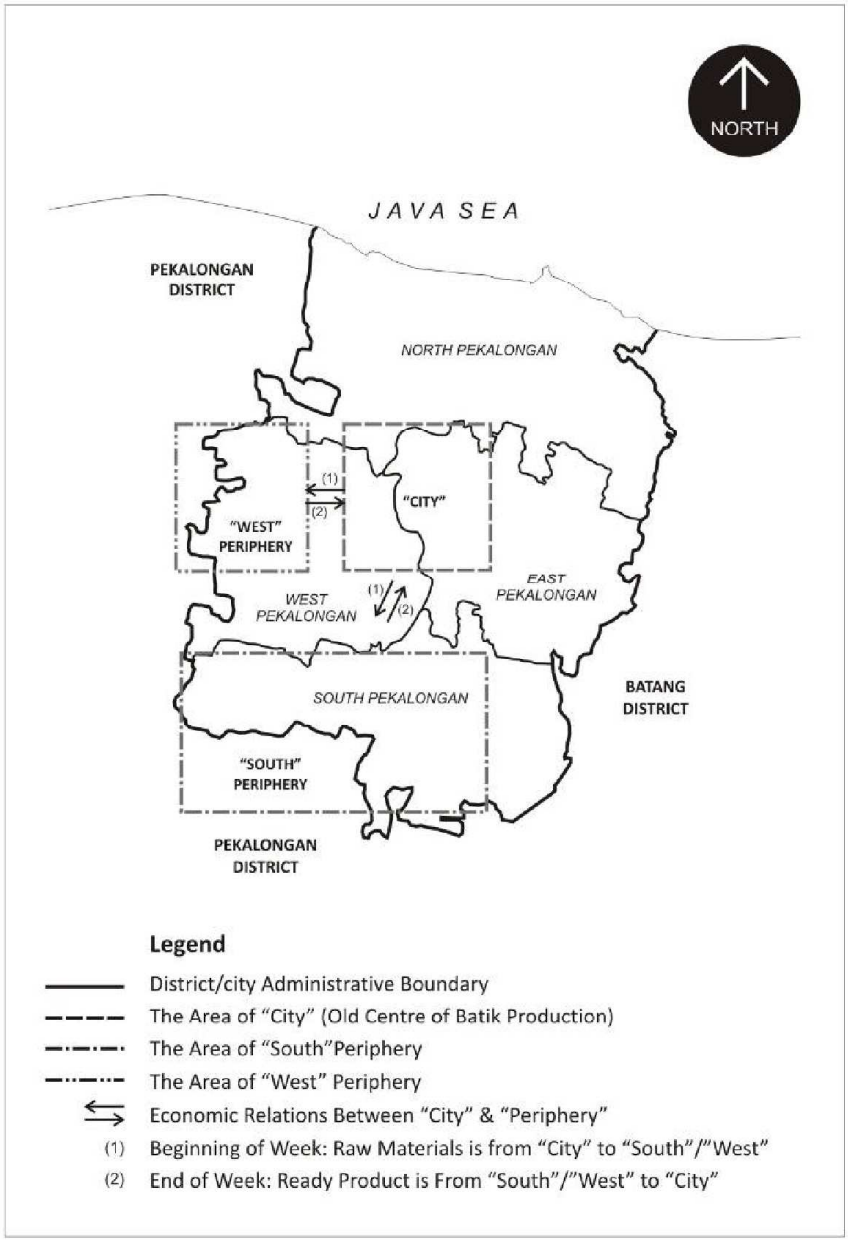
To round off this description of the batik part of business life in Pekalongan, I will show how the physical and geographical dimensions of the city relate to the social backgrounds of local entrepreneurs and the understanding of business activities in the batik sector. It will give us further insight into how the batik business operates in Pekalongan, and also into the existing regional inequalities. The description will be based mainly on survey data and on the perspectives of the *juragan*, bosses of the long-standing batik businesses that make fine batik in the traditional way. It excludes the perspectives of the bosses of modern factories that make printed batik on a large scale. Most Juragan differentiate the population of Pekalongan into those who live in the main heart of the city (*kota*), and those who live on the periphery (*pinggiran*). One informant, an owner of an upmarket batik workshop, told me that she lives in the 'city' or 'downtown'. She opposed the 'city' to the 'periphery', with a disparaging wave of her hand to show that the latter was far away and less important. According to her, the city reaches only as far as the traffic lights. The inner traffic lights are located near the city's main square (*alun-alun*).

Those juragan who make batik *halus* and batik *tulis* (fine batik) with manual and stamp techniques live and have their factories in what they refer to call as the 'city' or 'downtown': Kauman, Pesindon, Keputran, Klego, Sampangan and Noyontaan. Map 3.1 shows that subcontractors and factories making printed batik are based in wards (kelurahan) still within the city boundary of Pekalongan but outside the central, downtown area. Since most of those in the batik industry, bosses and subcontractors alike, work from home, this is also where they live.

The way juragan describe space relates to their perception of social status and business competition. Most juragan, who have been operating their batik workshops since the 1970s using the old manual and stamp techniques, are

unable to compete with the mass-produced batik using semi-modern stencil-printing, techniques established in early 1970s. The latter churn out more batik than the fine batik producers could ever make. Ms Diah (35 years old), an entrepreneur living in the southern part of Pekalongan and uses the semi-modern stencil-printing technique, told me that during the heyday of demand for batik in early 2008, customers lined up and were even willing to wait while the process finished. "They held money in their hands, queuing up for my batik. Even when only half-finished, they took it away, often when it was still half-wet.

Our enterprises made a fortune; we could never make that sort of money if we still used our old technique of stamping".




**Map 3.1** Locations of batik production centres in Pekalongan

Source: Survey data 2008-2009. Map design by Dimas Wijanarko 2010

The old-school *juragan* regard those involved in the mass production of batik with condescension, and attach a negative connotation to those coming from the periphery, because that is where most of the modern batik makers

live. It is also here that most people who work for them as subcontractors live, so an economic class factor comes in as well.

The designation of 'city' as 'centre' vis-à-vis producers on the 'periphery', as well as bosses versus workers, also aptly applies in a literal geographical sense to the daily flow of economic activities in the Pekalongan batik industry. On Saturday, the first day of the batik production cycle, bicycle rickshaws (*becak*) or motorcycles carry raw cotton cloth from the boss in the 'city' to the subcontractors living and working in the 'peripheries' (number (1) in Map 3.1). On Wednesday and Thursday, the last days of the batik production cycle, ready-to-sell batik is transported back to the city (number (2) on Map 3.1).

In general, people in Pekalongan share the derogatory attitudes of the locally influential juragan bosses towards their fellow residents in the south. Sometimes the southern inhabitants are referred to as Turks, an abbreviation of the Javanese, *turunan kidul*, 'descendents of the south.' It is a somewhat derogatory term. The 'Turks' are considered uneducated and holding to traditionalist Islamic teachings. A head of a government office in the Jenggot Ward told me that the people in the area obey *Kiyai* rather than the laws of the government. It is self-evident to outsiders that these traditional entrepreneurs living there must also produce 'low' quality batik.

These remarks on the spatial dimensions of batik production in Pekalongan city show that not only economic inequalities in the business world of batik but also social and cultural prejudices are embedded in the geography of the town. People in the periphery of town tend to be poorer and receive lower incomes and profits from batik production.

## d. A short history of the construction sector in Indonesia

The construction sector in Indonesia and in Pekalongan is relatively new by comparison with the batik industry and also far less complex. Van Klinken and Aspinall (2011) and Gapensi (2004) provide a detailed description of the industry in Pekalongan, including from a historical perspective. Information about the sector in more recent history can be found in Gapensi (2004).

The construction sector developed only gradually after the establishment of the Republic of Indonesia in 1945, but it accelerated during the Soeharto era.

During Dutch colonization, the main activities consisted of the construction of public infrastructure— roads, harbours, irrigation facilities and government buildings—all of which were in the hands of Dutch enterprises. There were at least six Dutch-owned civil engineering companies,[37] and five electricity firms that were also involved in construction activities.[38] All of these conducted large-scale projects, due to their strong capacity in terms of technology, equipment, human resources and funds, and the support they received from the Dutch government.

During the colonial period, there were also several relatively small construction companies that were owed by native or *pribumi* developers, such as the Technical Bureau Salam established in 1938 in Jakarta, OLDAS (*Oud Leerlingen der Ambachts-School*) in Yogyakarta, the Technical Bureau Oemoem in Bandung, and Firma Majid Asnoen in Surabaya. The last two enterprises survived until the Soeharto era (Gapensi 2004: 15). These native companies acted as subcontractors of smaller projects of the large Dutch companies. Technical Bureau Oemoem in Bandung, for instance, obtained contracts to construct housing in Bandung, Jakarta, Surabaya, Semarang and Surabaya, for the middle and lower ranking staff of a Dutch-owned real estate enterprise, Van Der Welle (Gapensi 2004).

Following Indonesia's proclamation of independence in 1945 and the prolonged dispute with the Netherlands until 1949, the new government had to tackle a myriad of problems. Infrastructure was ruined and yet there were only a few *pribumi* developers (Van Klinken and Aspinall 2011: 144). After independence, in 1957, former Dutch-owned enterprises were nationalized and they became state-owned enterprises: NEDAM became PT Nindya Karya, HBM became PT Hutama Karya, NV Volkers became PT Waskita Karya, and Associatie became PT Adhi Karya (Van Klinken and Aspinall 2011: 145).

Provision of infrastructure is a basic function of the state, but states usually need partners to do the construction work. Until today, contractors

37 NV Hollandsche Beton Maatschappij (HBM), Nederlandsche Aanneming Maatschappij (NEDAM), NV Volkers, Ooiman van Leeuwen in Semarang, De AIA, De Konder (Gapensi 2004: 14), and Associatie (Van Klinken and Aspinall 2011: 145, note 9).

38 RUHAAK and Co, Gebroeders van Sway, Firma Holvast, Firma de Rooy, and Firma Assendelft de Koning (Gapensi 2004: 14).

in Indonesia call themselves partners, *rekanan*, of the government not entrepreneurs, *pengusaha*, and this characterises the way they perceive the relationship with the state. Of course many contractors also try to make a profit working in the private sector. In this thesis, I am interested in and focus on those contractors who work for the state, not in the private sector.

The construction sector in Indonesia has always been state-dependent. This was certainly the case in the Soeharto era as economic development was one of the most important agenda items he used to legitimize his political position. It helped his popularity as the projects provided jobs for the people. One of the major development targets was the provision of infrastructure, such as roads (highways, and provincial, district and village roads), harbours, airports, irrigation channels and government buildings. Many gigantic projects flourished for the more than thirty years the regime held power. Because the construction industry was so important to ensure political legitimacy, Soeharto protected the sector through presidential decrees and a Presidential Instruction. The protection included: reserving contracts for projects with budgets below IDR 1 billion (US$ 100,000) and IDR 10 billion (US$ 1 million) for small and medium firms, respectively; requiring large firms (both national and international) to form joint ventures with small and medium local firms; requiring implementing agencies to give priority to small or medium local firms; and giving special allocations to small firms in the provinces, the district and in cities (World Bank 2001: 19; Robison 1986: 227). The first, second and fourth points were relevant for local contractors at the provincial level, both small and medium scale.

Golkar, Soeharto's ruling party, organized the sharing out of contracts at the national and regional levels through the relevant corporatist mechanisms, Gapensi and Kadin. As we have already discussed in Chapter Two, only one association or union was allowed to exist in a sector, and all those involved in that particular sector had to be members. The Indonesian National Contractors' Association, Gapensi (*Gabungan Pelaksana Konstruksi Nasional Indonesia*) was the only business association for contractors (MacIntyre 1991). All kinds of business associations in different sectors during this time were also required to be integrated in Kadin, the Indonesian Chamber of Commerce, the only permitted chamber for Indonesia businesspeople. Only contractors who were

members of Gapensi loyal to Golkar could secure government construction projects. Since the projects were channelled through government offices, proximity to bureaucratic administrators at the top level was necessary. Business survival at the local level also depended on a strong connection with the local Gapensi branch and administrators in the local government offices. These political connections were essential to survive in business.

The department of Public Works (*Pekerjaan Umum*) at the national level and the office of public works at the provincial level organized most infrastructure requirements. Along with that, the Department of Education and the Department of Health also had procurement activities and their own particular requirements, as most government construction work arises from the needs of these three departments.

During the Soeharto period, the organization of the sector is that it was classified into three groups based on the scale of the company: Group A (large-scale), Group B (middle-scale with two subdivisions), and Group C (low-scale with three subdivisions). The total population of the construction sector for the decade 1987 to 1997, the end of the Soeharto regime, is shown in Table 3.5.

Table 3.5 Population of contractors in Indonesia 1984-1997 (in percentage) based on scale of company

| Scale of company Year | A | B | | Total B | C | | | Total C |
|---|---|---|---|---|---|---|---|---|
| | | B1 | B2 | | C1 | C2 | C3 | |
| 1987 | 3 | 8 | 11 | 19 | 18 | 18 | 34 | 70 |
| 1988 | 4 | 9 | 10 | 19 | 21 | 24 | 32 | 77 |
| 1989 | 4 | 10 | 12 | 22 | 21 | 24 | 29 | 74 |
| 1990 | 5 | 10 | 12 | 22 | 20 | 24 | 29 | 73 |
| 1991 | 5 | 11 | 14 | 25 | 21 | 22 | 28 | 71 |
| 1992 | 6 | 12 | 14 | 26 | 22 | 21 | 25 | 68 |
| 1993 | 5 | 11 | 15 | 26 | 20 | 19 | 29 | 68 |
| 1994 | 6 | 12 | 15 | 27 | 21 | 21 | 26 | 68 |
| 1995 | 6 | 9 | 17 | 26 | 51 | 10 | 8 | 69 |
| 1996 | 6 | 9 | 17 | 26 | 49 | 13 | 6 | 68 |
| 1997 | 6 | 9 | 17 | 26 | 49 | 11 | 8 | 68 |

Source: Gapensi 2004: 111-120

The table shows that the largest group of contractors is in the lowest scale, group C; while group A, consisting of large-scale companies, forms a minority. During the 1990s, the divisions between the three groups hardly changed, only the companies changed. Grouping used to be with letters (A-C), but following new rules grouping is now done on a numerical scale (1-5). The data that Gapensi compiled was based on the provincial level, but according to the secretary of Pekalongan Gapensi, the structure of Pekalongan's construction sector was more or less the same at that time.[39]

### e. The construction sector in Pekalongan today

Following the political reforms in 1998, there has been an increase in the number of companies in the construction sector in Indonesia and also in Pekalongan, especially of lower-scale companies operation at the regional level. Before 1998, according to the database of the National Development Board for Construction, LPJK (*Lembaga Pengembangan Jasa Konstruksi*), there were 45 construction enterprises in Pekalongan.[40] From the LPJK data, by 2000, this number had doubled. Enterprises are now classified on a scale of one to five, the lower the number, the smaller the scale.

One decade later, in 2008, statistics compiled by the LPJK showed that almost 60 percent of the Pekalongan contractors defined themselves[41] as small (*kecil*), grade 2, and 28 percent as grade 3 (*menengah*); see Table 3.6. They consider grades 4 and 5 large-scale, which applies for developers, private or state-owned, in Jakarta.

[39]Interview, Secretary of Gapensi, Tilaal Basyir, Pekalongan, November 2008.

[40]I compiled these statistical data on construction enterprises from two sites: the National Body for Construction Development (*Lembaga Pengembangan Jasa Konstruksi*) at http://lpjk.org/modules/statistik/badan_usaha/2007/kabupaten_golongan.php?pilihan=Kabupaten&ID_Propinsi=09 (accessed 27-8-2008) and www.jasakonstruksi.net (accessed 26-8-2008). The first website provides a general picture of the construction companies in each *kabupaten*/city, and the second one provides data on individual enterprises in Indonesia, at the level of the *kabupaten*/city.

[41]The method of survey is a self-assessment, thus the owner of the construction company defined themselves.

Table 3.6 Construction enterprises in Pekalongan in 2008

| Grade (Based on law) | Grade (Based on contractors' definition) | Total number | Percentage |
|---|---|---|---|
| 2 | Small | 72 | 59.7 |
| 3 | Small | 35 | 27.5 |
| 4 | Medium | 18 | 14.1 |
| 5 | Medium | 2 | 1.57 |
| **Total** | | **127** | **100** |

Source: Database of LPJK (2008) www.lpjk.org (accessed 27-8-2008)

Years of existence are also important to distinguish Pekalongan contractors. It makes a difference if enterprises were established *before* or *after* 1997. The former I call 'senior' and the latter 'junior'. The majority of the 'senior' enterprises were nurtured by their connections with local bureaucratic administrators and the Indonesian National Contractors' Association, Gapensi, the corporatist association representing the construction sector which had strong links with Golkar. The majority of the 'junior' businesses are now nurtured by their relationships with members of newer, local political parties. Based on my interviews, the connections of 'junior' enterprises with local politicians are stronger than those the 'senior' enterprises foster at this level. The new political parties which emerged after the fall of Soeharto facilitated their friends and family members to establish new construction companies. The effect is quite similar to the situation with Golkar during the Soeharto era: the establishment of connections that can be characterised as cronyism. The differences, however, lie in the type of political actors who establish the 'crony' relationship, and the way in which it works.

State budgets continue to be the main source of funding in the construction sector. Formerly, the local Pekalongan budget, APBD (*Anggaran Pendapatan dan Belanja Daerah*), was the only source of financing for the sector in Pekalongan. The APBD budget allocation has been increased between 2005 and 2007 and declined sharply in 2008, as Table 3.7 shows. The decline in 2008 was due to allocation from the national budget (APBN) through the DAK scheme.

Table 3.7 Budget allocations for construction sector in Pekalongan Local Budget (APBD)

| Year | Amount (in IDR million) | Amount (in US$ million) |
|---|---|---|
| 2005 | 24,369 | 2.4 |
| 2006 | 57,223 | 5.7 |
| 2007 | 78,157 | 7.8 |
| 2008 | 10,524 | 1.1 |

Source: Pekalongan Local Budget (APBD) 2005-2008

After decentralization, besides the APBD, the national government established another line of allocation, the Special Allocation Fund or DAK (*Dana Alokasi Khusus*). DAK receives its funds from the national budget (APBN) and is channelled directly to district governments (*kabupaten*) to be spent on development projects listed as priorities—the projects that are to be given priority are defined in the national development priorities agenda or *Agenda Prioritas Pembangunan* (Usman et al. 2008: 1-2). Between 2005 and 2008, the amount of budget allocation for the construction sector from the ABN has steadily increased, as is shown in Table 3.8.

Table 3.8 Budget allocation for construction sector from National Budget (APBN)

| Year | Amount (in IDR million) | Amount (in US$ million) |
|---|---|---|
| 2005 | 7,220 | 0.7 |
| 2006 | 17,510 | 1.7 |
| 2007 | 28,681 | 2.8 |
| 2008 | 35,145 | 3.5 |

Source: Pekalongan Local Budget (APBD) 2005-2008

Since the DAK funding comes directly from the national government, all technicalities, such as designs, constructions, procedures, and financial

management, must follow regulations issued by the national government.[42] This makes the DAK scheme very bureaucratic and very complicated, and not many contractors want to obtain projects via this scheme. For example, the funds are released in three phases throughout the year; administrative accounting of the first phase must be submitted before the next phase of funds is released; and before the last round of funding is liquidated, all administrative requirements must be completed (Usman et al. 2008). These requirements are much more complicated than those required in order to obtain funding from the local APBD budget. As we will see in Chapter Five, the complexity of the administrative process of DAK funding opens new opportunities for rent seeking.

As education is a national priority, the education sector is one of the main recipients of the DAK or Special Allocation Fund. The distribution of funds operates differently in the education sector from that in other sectors: school principals and school committees manage the projects at their schools. This self-management (*swakelola*) approach is part of the 'good governance' reform initiatives, by attempting to respond to needs expressed at the grass roots. School principals now play an important role, because they represent their schools at the Ministry of Education. It is the Ministry of Education which supervises these DAK projects in the education sector, which are not given out according to the long-established practices of contractors and corporatist associations. In Chapter Six I include some case studies of how contractors access DAK projects in the education sector through their networks with school principals and school committees.

Pekalongan qualifies to receive national priority funding through the DAK scheme mainly in the education sector. The funds are spent on the construction and rehabilitation of classrooms, basketball courts, language and science laboratories, libraries, and other school facilities. When the DAK scheme was first introduced, none of the construction businesspeople were interested in undertaking these projects, because they regarded them as small-scale projects only. Most contractors preferred to focus their energy competing for non-DAK projects allocated by the Office of Public Works (APBD), which are

[42]Through laws, government regulations, presidential and ministerial decrees, instructions from ministry directorates, etc.

usually three times larger in scale and budget. However, some contractors have begun to realise there is money to be made from DAK projects, and they learned to negotiate the complicated regulations. DAK projects have also become important to them, because the funds from the local budget (APBD) have decreased (see Table 3.7), while the budget from DAK has increased (Table 3.8). As I will show in Chapter Six, 'junior' entrepreneurs are generally more active in searching new sources of finance and are more successful in getting projects from these new funds.

The political reforms brought about other changes in the construction world in Pekalongan as well; one significant change is the emergence of new construction associations, which have challenged the domination of Gapensi, the only construction business association recognized by the government in the past.[43] It controlled and dominated the distribution of projects, but since the reforms, other associations can also compete for funds. In 2008, however, the combined membership of these new associations was still smaller than that of Gapensi, which still accounted for 73 percent of the entire construction firms in the city, as Table 3.9 shows.[44]

[43]AKLI and INKINDO are associations for those involved in building consultancies and not for project executors, but they are connected to construction activities.

[44]- AKLI (*Asosiasi Kontraktor Listrik Indonesia,* Indonesian Association of Electricity Contractors)
- AKSI (*Asosiasi Kontraktor Seluruh Indonesia*, Indonesian Association of Contractors)
- AKSINDO (Asosiasi Kontraktor Konstruksi Indonesia, Indonesian Association of Construction Workers)
- ASPEKINDO (*Asosiasi Pengusaha Konstruksi Indonesia,* Indonesian Association of Construction Companies)
- GABPEKNAS (*Gabungan Pengusaha Kontraktor Nasional*, National Association of Contractors)
- GAPEKNAS (*Gabungan Pelaksana Konstruksi Nasional*, National Association of Contractors)
- GAPEKSINDO (Gabungan Perusahaan Konstruksi Nasional Indonesia, National Association of Indonesian Construction Companies)
- GAPENSI (Gabungan Pelaksana Konstruksi Indonesia, Indonesian National Contractors' Association)
- INKINDO (Ikatan Nasional Konsultan Indonesia, Indonesian National Consultants' Association)

Table 3.9 Construction associations in Pekalongan in 2008

| Name of Association | Old/New | Members | Percentage of total construction enterprises in Pekalongan |
|---|---|---|---|
| AKLI | Old | 9 | 7.14 |
| AKSI | New | 2 | 1.58 |
| AKSINDO | New | 5 | 3.93 |
| **Name of Association** | **Old/New** | **Members** | **Percentage of total construction enterprises in Pekalongan** |
| ASPEKINDO | New | 2 | 1.58 |
| GABPEKNAS | New | 1 | 0.79 |
| GAPEKNAS | New | 5 | 3.93 |
| GAPEKSINDO | New | 5 | 3.93 |
| GAPENSI | Old | 92 | 73.00 |
| INKINDO | Old | 4 | 3.17 |
| NA | NA | 1 | 0.79 |
| **Total** | | **127** | **100.00** |

Source: Lembaga Pengembangan Jasa Konstruksi (LPJK) 2008. www.lpjk.org. http://www.lpjk.org/modules/2008/daftar_registrasi_badan_usaha.php (accessed on 7-3-2011).

These new construction associations have demanded that project allocation from the provincial government should be divided equally among the associations, regardless of the size of its membership. They contested the dominant role of Gapensi. In the euphoria of democracy in the late 1990s and early years of the new millennium, initially Gapensi bowed to this demand, handing out projects it normally monopolized to the new associations, regardless of the number of the members in the associations. Later, Gapensi found out that only a few persons were behind these non-Gapensi associations in Pekalongan. When the political situation in Pekalongan stabilized, specifically when Golkar returned to power in 2005, by occupying the position of mayor,

Gapensi re-asserted its power and revoked the agreement with non-Gapensi associations. Since 2005, projects have been distributed proportionally, based on the size of membership of each association.

Another substantial shift that has had a significant impact on the construction sector in Pekalongan was the enactment of Bill 18/1999 on open competition and transparency. This is another effect of the 'good governance' reforms deemed to improve the sector by liberalizing it by forcing accountability and transparency in the way the sector is organized. Since the bill was enacted, provincial governments have to publish their projects and bidding schedules through newspapers; all contractors must compete openly and participants from different administrative jurisdictions are allowed to bid for projects.

With the end of the corporatist system of protection and favouritism, small construction businesses have flourished in Pekalongan and many new players now dominate the sector. The increase in funds available and the way funds are distributed has led to the emergence of new business actors and new connections with new political actors.

## Conclusion

As we have seen in this chapter, Pekalongan is a provincial town with a long history as a trading centre, and it still has a vibrant business culture dominated by private actors. The traditional, hand-made batik business, for which it is famous, has declined, but Pekalongan is resilient and has continued to thrive as a small- to medium-scale manufacturing and trading city.

Another feature of Pekalongan is its multiculturality. People from different cultural backgrounds—Javanese, Arabs and Chinese—have found their own niche in the business environment. Much of the business and trading in Pekalongan can be attributed to the Arabs and Chinese, who have settled and interacted with the local Javanese population. Most Javanese are traditional and orthodox Muslims, who mix Javanese traditions with their Islamic beliefs. The Javanese make up the largest percentage of the population and play a dominant role politically, culturally, and socially. Economically, ethnic Chinese and people from Arab descent are important. Where Javanese dominate the batik production, Chinese Indonesians control most of the supply of raw materials, and Arab Indonesians are involved more in wholesale and marketing.

The local batik industry flourished with the protection it enjoyed during the presidency of Soekarno, the first president of Indonesia. This protection was lifted in the early 1970s, soon after Soeharto came to power. The industry has been struggling ever since, as it has been forced to reorient itself towards the market. This means tight competition among batik producers, in particular between entrepreneurs who continued using traditional manual techniques of batik making serving special niche markets. Others moved to more modern stencil-printing methods and mass production of machine-produced batik. The recent batik resurgence has contributed to the chances of traditional batik producers, as consumers again are eager to wear traditionally-produced batik. The increase in demand, however, did not really change the structural downsizing of traditional batik production in Pekalongan and Indonesia in general, which has been marginalized by modern techniques.

The construction sector in Indonesia did not take off until Soeharto came to power. Early in his presidency he enacted legislation to protect the sector; he needed the patronage he enjoyed from handing out lucrative construction

projects to legitimize his hold on power. These crony practices came to an end after 1998, and, with decentralization funds, new contractors appeared at the site. As with the batik sector in Pekalongan, competition opened up and got stronger among contractors, driven by a growing number of construction businesses as well as large increases in state funding for dispersal at the local level. It is still too soon to predict what the future for the construction industry will be.

# Chapter 4

# CHAPTER 4
# LOCAL DEMOCRACY AND DECENTRALIZATION IN PEKALONGAN

In this chapter I describe and analyse the way local democracy operates in Pekalongan after the political reforms of 1998. Such an analysis is important, as changes in politics offer the enabling environment for new interactions and fertile ground for new relationships between state and business at the local level. As has already been indicated, regional and local autonomy has stimulated the growth of a vibrant local polity, with the emergence of new political actors and new ways of political participation; the result is that power competition among the emerging political actors has intensified. Participation and competition are signs of democracy, or polyarchy, as Robert Dahl labels democracy (Dahl 1998: 38). Free and open elections are another indicator of democracy, as it is a method in which people's participation is exercised to select their representation to occupy public office (Schumpeter 1962: 242). Competition, changing power relations, and regular elections are key issues for understanding the relationship between politics and business in Pekalongan.

I begin this chapter with a closer look at political competition, considering it from various aspects—policy formulation, everyday political interaction, and the exercise of power. I also show how electoral democracy in Pekalongan, as in other parts in Indonesia, is accompanied by informal practices, which

tend to be non-democratic, such as patronage and clientelism.

## 1 Political Actors in Pekalongan after Reformasi

The 2001 decentralization law changed the balance of political power between the national and local levels[45], and between the local government and the local council or DPRD. Democracy restored a degree of power to the people and to civil society organizations. The decentralization processes involved a restoration of representative institutions in Indonesian politics and aimed to strengthen the check-and-balances between state's institutions. Decentralization has conferred a wide range of authority on the local government at city and district level, including policymaking.[46]

Prior to the reforms, in Pekalongan, power was in the hands of the provincial government of Central Java in Semarang. The provincial government acted primarily on behalf of the national government and the district level had little room to make their own policies. The budget of the Pekalongan government was attached to that of the Central Java government, which made it a must for Pekalongan government officials to travel to Semarang for weekly meetings, as policy decisions were taken there. The Pekalongan government was basically only an implementing agency of national and provincial policies.

Since the 2001 decentralization bill was enacted, many policies are decided upon in Pekalongan. One example is in the field of education. If, for instance, the Pekalongan government wants to construct a new school building it can decide for itself—without asking permission from the Central Java regional government—how to allocate money and to which school. The reforms mark a *vertical* shift in power.

[45] As mentioned in Chapter One, the Indonesian administrative system is structured in five layers: national, provincial/regional, city/district, sub-district (*kecamatan*), and village (*Kelurahan* or *Desa*). During the Soeharto era, political power was centred at the sub-national level (province). Decentralisation Law No. 22/1999 and its revised version No. 32/2004 devolved administrative power, especially to the city/district level. As of 2009, there are more than 471 city/districts in the entire country.

[46] The five sectors that remain in the hands of the national government cover foreign affairs, the judiciary, fiscal management, religious affairs, and defence.

Decentralization of power towards the local government is accompanied by a strengthening of representative institutions, such as the local parliament. Thus, political shifts also took place *horizontally* between institutions at the same level—namely, between the elected parliament of Pekalongan, the district House of Representatives—usually referred to simply as DPRD[47]—and the administrative body headed by the District Head (*bupati* or mayor). As is the case at the national level, the power of the DPRD is now equal to that of administrators (Ziegenhain 2009: 34). In the past, the DPRD could only approve programs that had been advanced by the district head (*Bupati*); it had no role in policy formulation and evaluation and it functioned merely as a 'rubber stamp'. A current DPRD member, who was also a DPRD member in the Soeharto era, told me, "Now we can actually do something, unlike in the Soeharto era, when we simply obeyed the 'four Ds' (*datang*/come, *duduk*/sit, *diam*/remain silent, *duit*/get money)." The DPRD is now involved in local budget formulation and final decision making in relation to the budget. It oversees the implementation of programs by local administrators, and it reacts to criticisms that people raise concerning the performance of the government and the implementation of government programs.

Finally, a shift in the relationships between the local government and the people has also occurred. The political reforms inspired the political participation of citizens, which resulted in new organizations sprouting up in Pekalongan. The Soeharto regime had rigidly controlled social organizations through its corporatist approach, as discussed in Chapter Two, but the restrictive law on civil societies was abolished after Soeharto's resignation. As a result, since 2000, civil society has come to life and thousands of civil society organizations have sprung up in Indonesia.

The democratic process now includes elections at three levels: for president, the provincial governor, and of members of the national and local councils. Since 2005, the election of the district head (*bupati*) or mayor (*wali kota*) has also been included in this electoral process. Thus the mayor of Pekalongan who is elected directly enjoys stronger legitimacy[48]. All this has

[47] For the members of DPRD, I apply the term 'members of DPRD', or sometimes simply 'politicians'

[48] Local direct election has changed in 2014. A new law has been released in which local leaders (governor, head of district and mayor) will be elected by members of the DPRD.

resulted in major changes in the politics of Pekalongan. It has led to increased competition amongst politicians and to a mushrooming of civil society organizations at the societal level. In the following section, I explore the roles of each of the main political actors that have contributed to the evolving local democracy.

## a. Pekalongan District Council (DPRD)

In the first general election in Indonesia in 1999, 48 political parties took part, making it quite colourful in contrast with elections during the New Order, when only three parties participated. In 1999 in Pekalongan, there were 24 parties registered with the election commission and six of them gained seats in the DPRD. Five years later, in the 2004 election, seats were distributed among seven political parties, and in the 2009 election, nine parties won seats (see Table 4.1).

The winning parties were Islamic or nationalist. According to Baswedan (2004), Islamic parties can be recognised by: programs which, directly or indirectly, support Islamic teachings and the promotion of the interests of the majority Muslim population in Indonesia; and by the use of Islamic symbols as party attributes, such as the colour green, the Ka'bah, and the cresent moon. He also includes as Islamic parties, those which are not explicitly Islamic in first appearance, but which "welcome, uphold, and are sensitive to the aspirations of Indonesian Muslims" (Baswedan 2004: 672). Nationalist parties hold more secular ideas and promote Indonesian nationalism as their main political principle. Table 4.1 shows how I categorise the various parties represented in the local elections into 'Islamic' and 'nationalist'.

In the 1999 local elections for the Pekalongan Council (DPRD), Islamic parties garnered 50% of the total of 30 seats, which nationalist parties won 40% and the military was allotted three seats.[49] In 2004, Islamic parties secured 60% of the total number of seats, while nationalist parties also increased their number of seats, but not as much as the Islamic parties. The

[49] The 1999 election was held during the transition period in which military authority in civilian institutions was dismantled. The military/police had a special allocation of seats in the 1982, 1987, 1992, and 1997 elections. In 1999, the military were allocated only three seats. In the 2004 legislative election, this special allocation was removed entirely.

proportion of Islamic party seats declined from 60% to 50% in the 2009 election. Nevertheless, Islamic groups remained significant in Pekalongan's politics. As I have already mentioned, the Islamic PPP won the majority of seats in all of the legislative elections in Pekalongan during the Soeharto era, except for the 1987 election, an indication of the strong support for Islam in the district. Pekalongan politics, after the political reform, continues to be dominated by Islamic parties, including in DPRD.

**Table 4.1** Parties and seat numbers in Pekalongan local parliament (DPRD) during Soeharto and post-Soeharto eras (1982-2009)

| Affiliation | Name of political party | Soeharto era | | | Post-Soeharto era | | |
|---|---|---|---|---|---|---|---|
| | | '82 | '87 | '92 | '99 | '04 | '09 |
| Islamic | 1. PPP (United Development Party) | 7 | 5 | 8 | 7 | 8 | 4 |
| | 2. PKB (National Awakening Party) | - | - | - | 5 | 6 | 3 |
| | 3. PAN (National Mandate Party) | - | - | - | 2 | 3 | 5 |
| | 4. PBB (Star and Crescent Party) | - | - | - | 1 | 0 | 0 |
| | 5. PKS (formerly PK) (Prosperous and Justice Party) | - | - | - | 0 | 1 | 2 |
| | 6. PKNU (Islamic Leaders Awakening Party) | - | - | - | - | - | 1 |
| | *Subtotal* | *7* | *5* | *8* | *15* | *18* | *15* |
| National-ist | 1. Golkar (Functional Groups) | 6 | 8 | 7 | 3 | 5 | 8 |
| | 2. PDI-P (formerly PDI) (Indonesian Democratic Party of Struggle) | 3 | 3 | 4 | 9 | 7 | 4 |
| | 3. Partai Demokrat (Democratic Party) | - | - | - | - | 0 | 2 |
| | 4. Partai Gerindra (Great Indonesia Movement Party) | - | - | - | - | 0 | 1 |
| Military | 5. Military seats (Special allocation, by law) | 4 | 4 | 5 | 3 | - | - |
| | *Subtotal* | *13* | *15* | *16* | *15* | *12* | *15* |
| | **Total** | **20** | **20** | **24** | **30** | **30** | **30** |

Source: Pekalongan Election Commission (*Komisi Pemilihan Umum Daerah Pekalongan*, KPUD Pekalongan)[50]

[50] The total number of seats in each local legislature is calculated based on the proportion of the area and the population size. In 1994, the Pekalongan administrative area was expanded,

The increase in the number of parties has led to an increase in political competition in general, particularly between Islamic and nationalist/ secular parties, and also within each of the groups. Sometimes the political competition between parties becomes very open. In 2008, a PDI-P (nationalist party) member of the DPRD embarrassed the speaker of the house, a member of an Islamic party, by making public a confidential document about the latter's excessive travel budget.[51] Another example was the selection of the head of DPRD. The regulations stipulate that the party winning the most votes can appoint one of its members as speaker of the house, while the parties with the second and third most votes will occupy the positions of deputy speaker. In the 2004 election, the party garnering the majority of seats was the PPP. However, a loose coalition of the other Islamic parties joined together to have Salahudin, a PKB member, appointed instead of the PPP candidate, M. Rozak. Some members of Pekalongan council told me that the latter was not mature enough to be a speaker; others told me that he would have a tendency to abuse his power should he become speaker. The loose coalition among Islamic parties justified the violation of regulations to select their speaker.

Not only relations between political parties have changed and competition has increased, but also relations between administrators and the local parliament (DPRD) have changed. Good networks and relationships turn out to be vital to gain and maintain a powerful position. This intricate relationship can best be illustrated with the example of the increased power of the mayor of Pekalongan.

## b. The rise of the mayor of Pekalongan

The relationship between members of the DPRD and administrators has become more complicated since 2005. In that year, elections were introduced for the direct election of the mayor (*Pilkada* or *Pemilihan Kepala Daerah*). The mayor occupies two positions: he is an elected politician, thus similar to members of the elected DPRD, and he is also the administrative or district

as a result of which the population increased and two sub-districts were created. This also increased the number of seats in the legislative assembly from 24 to 30 seats. Formerly a *kota praja*, in 1987 its administrative level was raised to *kotamadya* (lit., medium-sized city).

[51] Interview with member of DPRD from PDI, P Rekso Sumarjo, Pekalongan 28-2-2008

head, of an entity that the DPRD controls. Local administrators and the heads of all government departments—education, health, poverty eradication, public works, social affairs, manpower, women affairs, the general secretariat, and human resources—work under the direction of the mayor. During my field work in 2008, the mayor, Basyir Ahmad, was the head of the Golkar party district branch as well. This position allowed him to select the candidates for the Pekalongan council from Golkar, and in that way he even controlled the Golkar cadres in parliament.

Basyir Ahmad became the first elected mayor of Pekalongan in 2005. He is now in his second term (2010 to 2015). He is of Arab descent within a society that is predominantly Javanese. After graduating from medical school at Diponegoro University of Semarang in 1981, he became a medical doctor in Pekalongan. He is married to Balqis Diah, a batik entrepreneur, and they have four children. His wife is currently speaker (the head) of the Pekalongan DPRD (2009-2014) from the Golkar Party.

Ahmad's political career started in 1982, when he joined Golkar's youth organization, the Indonesian Young Generation for Reform, AMPI (*Angkatan Muda Pembaharuan Indonesia*). In 1998, he became the head of the Pekalongan branch of Golkar and was elected to the Pekalongan DPRD in 2004. He is respected in town, especially because he was 'a doctor who never asked money from his poor patients', according to several informants. This social capital has been the key to his political success.

> Ahmad is warm, relaxed and straightforward for a person with a public position. I happened to be in the same train with him and his wife to Jakarta. We were in different train compartments, but he looked for me and invited me to move to his compartment, which happened to be empty. This is a very rare attitude of a mayor, who is usually more formal. We talked until 2 o'clock in the morning. On our arrival in Jakarta early in the morning, he was not picked up but just organized his own taxi. His informal, unceremonious and straightforward style shocked many Pekalongan administrators, as Indonesian administrators are usually formal, status oriented, and

> particular concerned about appearances and manners. My Javanese neighbour, who is a civil servant in Pekalongan, thinks that by Javanese standards, Ahmad has 'no manners,' she associates his brash manner and behaviour with his Arab background (fieldnotes 3 September 2008).

Ahmad works hard, is determined to use his power to achieve his targets and tolerates little dissent. He sets targets in the public service sectors, such as health, education and poverty eradication. To reach his targets, he stays in close contact with the head of these three offices and coordinates policies and the actions of several civil society organizations[52] to help improve public services.

To execute his programs, Ahmad has chosen to use informal channels, such as Civil Society Organizations (CSO)s and Golkar networks in DPRD. He selects the people he favours, those he can control, to be the heads of the various offices (*kepala dinas*). To achieve his goals, he is prepared to ignore formal democratic procedures, such as consultations with the Pekalongan DPRD, which he considers a long and inefficient process in policy making. The education and health sectors are his priority programs, and during his office he took control of these two sectors. As he said once to me: "I will take care of them myself; I am unofficially the head of the health and education offices in Pekalongan". While he has a lot of power, he feels that democratic rules limit an effective policy making process. He also uses the arguments of incompetency and inefficiency of staff members and procedures to justify his actions. Under the direct and authoritarian leadership of Basyir Ahmad, Pekalongan has won several awards, and he himself was chosen as the Indonesian representative to the world meeting of the United Nations Habitat 'Poverty Eradication' program in Nairobi in 2010

[52] In this case he worked with Pattiro, which is described below.

### c. Civil society organizations

The next political field which changed markedly after the democratic reforms that followed Reformasi was the rise in the number of civil society organizations (CSOs). The reforms ended restrictions on civil society organizations.[53] During the Soeharto era, it was almost impossible to meet the myriad of requirements to establish a CSO, let alone to expect that the organization would be able to advocate on behalf of the people. The new freedom of association meant that anyone could form an organization, and as a result countless civil society organizations have sprung up in Indonesia. Twenty new organizations were established in Pekalongan between 2000 and 2007.[54] As the table in the Annex shows, the majority of CSOs in Pekalongan are local, ad-hoc and issue-based. This means that Pekalongan residents themselves initiate the majority of the CSOs, often to advocate on a particular issue, and the organizations are dissolved when the issue is addressed; they usually call themselves a 'committee', 'forum', or 'coalition.'[55]

The new freedoms included freedom of the media. In 2005, *Suara Merdeka*, a leading newspaper in Central Java, launched *Suara Pantura* (literally, Voice of the North Coast) and the Surabaya-based *Jawa Pos* Group also began publishing *Radar Pekalongan* in 2008. Until today, they give a voice to people in Pekalongan, not only presenting news but also addressing social and political issues such as environmental pollution, evaluation of government officials, and other issues.

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[53] Antlov (2005) follows Hill's (1995) broad definition on civil society organisations, which includes the media, student and citizen associations, non-governmental organisations, labour unions, and farmers' cooperatives.

[54] In addition to these new CSOs, the ones that were established during the Soeharto era, are still active. These include campus student organisations like The Islamic Students Association (Himpunan Mahasiswa islam, HMI) and the women's neighbourhood organisation, (*Pembinaan Kesejahteraan Keluarga*, PKK). The two largest Muslim organisations, NU and Muhammadiyah, are stronger than ever, including their affiliated organisations, such as NU's women's organisation and Muhammadiyah's youth group. These organisations are not directly involved in politics, but they frequently join ad-hoc committees on issues of concern to them, for example joining a committee at the national level to successfully protest the bill on anti-pornography in 2010, aiming to restrict freedom of expression through art activities, including performing in local and traditional costumes which reveal part of the body and therefore considered 'porn'.

[55] For example, the Committee for a Free and Fair Pekalongan Mayoral Election was established during the mayoral election in 2005. The Coalition for Free Education Service, KPPG (*Koalisi Pemantauan Pendidikan Gratis*) was established in 2006, when parents protested the extra payments that schools asked from new students.

With the help of CSOs and the media, citizens have learnt that democracy provides them with social and political capital, which they can use to pressure the authorities, resist top down policy-making and get their demands met. This was not possible during the authoritarian Soeharto era, when vocal citizens risked persecution or worse. A case in 2007 in Pekalongan demonstrates how the newly acquired freedoms have led to a new power balance.

> In February of 2007, the Pekalongan mayor together with the DPRD agreed to regulate street vendors, who were regarded as the cause of the sanitation and cleanliness problems of the city. The new regulation amounted to halting trading activities all over the town. The vendors organized themselves with the support of a local NGO called PAS (Public Area Services) and the backing of many CSOs, which helped them identify options for negotiations and a possible way out. The vendors lobbied with the mayor and the DPRD, asked them to reconsider their decision, but with no concrete results. Eventually the street vendors gave an ultimatum to the Pekalongan administrators and the DPRD that they would demonstrate and block the Pantura highway if the policy continued. This was a serious threat, because it would cause traffic jams on the main artery of Java and thereby result in considerable economic loss. On 3 March 2007, as the plan to block the highway was about to be executed, a meeting was held between the mayor, several religious leaders, DPRD members, police officers, PAS (Public Areas Services) and the street vendors. An agreement was reached—street vendors could continue their trading activities, but only after 6 p.m.; they should also clean up after they had closed their stalls. The demonstration was cancelled and the regulation was reviewed accordingly.
>
> This case not only showed to ordinary citizens that social organizations and new social capital can bring results, a DPRD member told the press that they had never expected civil society to be so strong and to go so far as to try to block Java's main highway.

Below I explore briefly the functioning of political actors who have played a role in Pekalongan politics since 1998. Through this we see how liberal democracy works in a place like Pekalongan. Liberal democracy is defined as a guarantee for citizens to exercise their political rights (freedom of expression) and to participate in free and fair elections. Electoral democracy is also in place in local politics in Indonesia, which means election for public office is regularly conducted (Przeworski 1996). Institutions, such as DPRD, whose members are elected democratically in the election has been set up. Each Pekalongan citizen participates regularly in at least four elections: presidential, governor, mayor, and legislative. In addition, civil society organizations, which are deemed to act as a watchdog over the function of the state have emerged and are active in Pekalongan politics. They have advocated and helped to bridge people's interests and state policies. However, the installation of liberal and electoral democracy can only be meaningful if the political processes exercised by these actors are accompanied by a political process that is also democratic. The following paragraphs explore the reality of the political process among the three political actors in Pekalongan: DPRD, Mayor and administrators.

## 2. New policy-making processes in Pekalongan

The emergence of new political actors and the restoration of representative institutions in the arena of local politics have been accompanied by new political processes and relationships among these actors. In the following paragraphs, I show how these the actors, with their own power bases, interact in the policy-making process in Pekalongan.

### a. Policy making after Reformasi—the new challenge Internal DPRD processes: Clientelistic and self-serving

Decentralization has given greater power and a substantial, formal political role to the DPRD, especially in relation to the local administrators. Now the DPRD is involved in the formulation and evaluation of policy, in law making, in budgeting and the oversight of administrators' performance. Despite the fact that the DPRD can propose policies and budgets for local programs, it has limited capacity to fulfil their functions in this area, which leads often to poor performance of the DPRD. This is not the case in Pekalongan only, but a

common problem in Indonesia since Reformasi (Ziegenhain 2009). The reason for the general lack of performance seems to be that members of the DPRD have insufficient knowledge of policy issues in areas such as education, health and infrastructure, as well as sound knowledge of proper policy processes and procedures (Sherlock 2003: 39). In Pekalongan, the situation is not different. Most members of the Pekalongan council in the 2003-2008 term had graduated from highschool, and thirteen members out of 30 were university graduates. Hardly any of the university graduates, however, had a background in areas related to their jobs as members of the DPRD, such as public policy making, public budgeting, or law making (DPRD General Secretary 2008). Political parties, which are supposed to prepare their members to represent voters, have not done much to improve the capacity of their members. This is a general problem in the political parties and the problems have extended to the DPRDs, not only in Pekalongan (Ziegenhain 2009).

DPRD members are mostly driven by the fact that they want to be re-elected, as a result of which many of their actions and decisions are aimed at increasing their chances for re-election. They engage with issues which are of primarily concern to their constituencies rather than in the general interest of Pekalongan. This means that democracy works to some extent for people at the grass roots, but in a very pragmatic and clientelistic way (Kitschelt and Wilkinson 2007). These initiatives taken by DPRD members are often based on the personal initiatives of individual parliamentarians, and are not carried out through political parties, as they should be in a representative democracy. In addition, the politicians' engagement in interests of the people seems to be personalized and clientelistic. By way of example, Ramdhon Sakti (a pseudonym), a sitting member of the DPRD for Golkar, started preparing well in advance for the elections of 2009 by identifying the socio-economic problems in his electorate in South Pekalongan. A year before the election he showed me a dozen proposals coming from those who had supported him in 2004, such as a request for the repair of a broken bridge. For the whole of 2008 he was busy trying to get budget funds allocated for these requests. He was aware, once he managed to fix the broken bridge, his popularity would rise, and chances to be re-elected would be high. In the case of the bridge, he planned to go to the Department of Public Works and try to organize the

needed funds. If no funds were to be allocated in that department, he told me that he planned to approach the head of the department personally and use his influence as a member of DPRD to get funds released, by for instance relocating other expenses.

He managed to find a way to fund the broken bridge, and his efforts were rewarded with his re-election in 2009. While he achieved something for his supporters, it was based on his own initiatives and personal connections and drive, rather than coming via proper policy planning embedded in the institutional process. Also, the exchange between him and his supporters was pragmatic. What he did had nothing to do with assuring democratic values, such civic liberties, political rights and a high degree of citizens' participation.

What Mr Sakti did was indeed a practice of clientelism, which has been defined by Kitschelt and Wilkinson as "…a particular mode of exchange between electoral constituencies as principals and politicians as agents in democratic system" (2007: 7). In the context of relationships between politicians and voters, clientelism is a type of linkage between the two focused on particular goods, and there is a possibility that voters withdraw on the deal once they have been 'paid' (Ibid.). Another feature of clientelism is that it is focused on the person of the politician (individual), not the party to which the politician belongs (institutional): "...it does not rely on the specific conduct of individual voters and small groups of voters" (Kitschelt and Wilkinson 2007: 7). Kitschelt and Wilkinson suggest that ideally the more democratic a political system is, the more programmatic the type of linkages will be. However, in developing democracies, such as Latin America and the majority of Asian countries, this is not the case. As we have seen in the case of Indonesia, electoral democracy is set, but political practices and representative institutions have to operate within the practice of clientelism, including in Pekalongan.

Apart from being busy one year before the elections, members of DPRD were more enthusiastic about acting on issues that they know are popular with their constituencies. For example, the Pekalongan DPRD decided that all female Muslim students at public schools (from elementary to high school) had to cover up with Muslim attire (head scarf, long skirt and a long-sleeved shirt). All students were also required to arrive at school 30 minutes before the school starts, at 7 am, to take part in Koran-reciting classes; and before

they could continue to junior high school, elementary school students had to obtain a certificate showing their ability to read the Koran. The members of the DPRD supported these policies to give a public impression that, like most voters wanted, they are seriously concerned with Muslim values. The religious electorate supports legislation to encourage piety, and adhering to their demands is a way to increase popularity.

Besides serving their own specific electorate, DPRD members served their own private goals. I observed a lot of self-serving behaviour among DPRD members: they were quite enthusiastic when it came to budgeting for their own expenses and facilities. In January 2006, the DPRD allocated IDR 396 million (US$ 39,600) for 30 laptops for their own use[56]; they agreed to the budget even though there was no clarity whether the computers would become the property of the DPRD on loan to the individual legislators or would become their personal property. They were also busy with topics related to their salary, and their welfare in general, rather than really concentrating, for example on the topic of drugs consumption among youths in Pekalongan, which had become quite threatening at that time.

In conclusion: elected DPRD members in Pekalongan exercise their political power often to serve their own interests and to increase their political popularity, by means of clientelism and to help ensure re-election. They often do deliver on their function as representatives of their supporters, as is the task of politicians in a democracy, but they are only able to do this in a limited, fragmented way. Scholars on political parties in Indonesia suggest that this situation is due to the fact that the institutional process at the party level is weak and marked by the absence of party ideology and efficient organizational infrastructure (Tomsa 2009: 179). Further, these shortcomings have an impact on the performance of parliamentarians, who are as yet unable to effectively legislate to deal with the broader problems that people face in daily life (Ziegenhain 2009).

The result of all this is that the political dynamics we observe in Pekalongan create space for informal practices, characterized by individual or personal connections between members of the DPRD and their supporters. Here, many opportunities for stakeholders, such as entrepreneurs and traders, occur (see

[56]*Suara Merdeka*, 11-2-2006.

Chapter 5). Family connections, religious similarities, friendship or shared business interests are the most important ways in which people connect to members of the DPRD. Before we go into a deeper inquiry into these relationships and the relevance for business actors in the next chapter, we look at the relationship between the DPRD and the administrators.

## b. The relationship between the DPRD and the administrators

In a democracy, elected parliamentarians and administrators or civil servants have their own functions and responsibilities and must work side-by-side to issue policies. During the Soeharto era parliamentarians could only 'rubber stamp' programs that were decided at a higher level. Now there is a reversal of roles between parliamentarians and administrators; authority is in the hands of the elected DPRD. We can say that political capital has shifted from the administrators to the elected parliamentarians. Power used to be at the advantage of administrators; now the advantage is with legislators.

Despite the fact that parliamentarians have political advantage, they do not have the technical skills held by bureaucrats. Their lack of expertise means that they are often unable to take the right policy decisions. To initiate good policies and programs that benefit the people, the two branches have to work together and support each other. However, this is not always the case, as is clear in the following example.

During my research I had contact with politicians and bureaucrats from the lowest to the highest levels in Pekalongan. I observed a lot of competition between the elected parliamentarians and administrators and a not always cordial relationship between both groups. Politicians now engage in power games with administrators, exploiting the symbolic capital they enjoy. Previously, it was the members of the DPRD who were subjected to the subtle exercise of symbolic power: the DPRD speaker bowed low when he or she shook hands with the heads of government offices. Now, the situation has been reversed. The administrators have to endure the arrogance of the DPRD members. The low- and middle-ranking public servants who shared their experiences with me had started their careers within the last five years, and so they were not familiar with the situation under the previous regime. However, they have heard stories from their superiors who claim that local politicians are

now *kemaki,* a Javanese word used to describe arrogant, pompous behaviour. According to the politicians, previously, it was the government officials who were *kemaki.*

In 2008 I inadvertently witnessed a small but insightful altercation that exemplifies this power struggle between the DPRD and the administrators in Pekalongan. The DPRD speaker had scheduled a meeting to discuss the local budget with staff from the financial section. Several minutes after the set starting time, no one had shown up. The speaker was annoyed and upset and complained that the administrators did not take the DPRD seriously. He said to me, "If they think this is a game, then let's play it on!" When the administrators finally arrived half an hour later, the speaker said to them, "What do you want? There will be no meeting today. I'll tell you when we will have the meeting. I am the politician here, not you. I am the one who decides, not you. You need us and without our approval you cannot issue any policies. No policies mean that you have nothing to do." While saying this he did not even look at them, to show his lack of respect.

This example of power play was rather rude, and I observed other parliamentarians enjoying their newly-acquired status vis-à-vis administrators, though in a more subtle way. On one occasion, at the beginning of an appointment to interview a Golkar parliamentarian, Irvan (a pseudonym), told me he had a meeting with administrators. I offered to wait, but he continued the interview. When the administrator knocked on the door, Irvan, without looking at him, signalled to him to enter using his left hand (using the left hand in a formal situation like this is considered to be rude). Eventually Irvan spoke to him and told him he would soon join the meeting; though he continued talking to me for another 30 minutes. During this time an SMS came in on my cell phone, though I did not read it. It turned out to be from the administrator asking me to hasten my meeting with Irvan; it turned out that he was afraid to confront the DPRD member again directly.

Local administrators are still learning to adjust to the new reality of discussing policy proposals and budgets with elected politicians. When members of DPRD are unable to assert their political capital, perhaps because of genuine ignorance or maybe even out of deliberate disrespect, they often resort to using their symbolic capital to ignore or badger administrators during

meetings. The members of DPRD are less competent than administrators regarding technical issues, and often are unable to ask for information or question proposals. Rahmat (36), a pseudonym, is a middle-level official. He was sent by his boss to represent him at a commission meeting of the DPRD. Rahmat had to present a report on the establishment of a new village, Panjang Baru, in the northern sub-district. During his presentation, the DPRD members from the PPP sat in the back row chatting to each other, one from PAN repeatedly tried to turn on his microphone as if he was ready to storm Rahmat with questions, the chair of the meeting read a newspaper, others were busy with their mobile phones, another kept yawning and glancing at his watch as if he could not wait for the meeting to end, even though it had just started. After his presentation, the PAN member bombarded him with irrelevant questions. The PKB politicians wanted to know why the new village was being established only that year, whereas it had been planned five years ago; the PDI-P politician interrogated him on why his superior failed to show up, as apparently he did not believe that the supervisor was really ill. "I was saved by the call for prayer that day, a sign that the meeting was over," Rahmat told me afterwards. "It was a terrible experience to be in a situation in which you know the assessment is not on your work, but on you as a person."

Another example of how local administrator need to adjust their way of working to the new political climate is the case of budget spending by the previous mayor of Pekalongan from 1999 to 2005, Samsudiat. He had decided to construct a sports stadium. At the end of his term, the construction was not yet completed, and the funds were not fully spent either. In January 2006, the head of the Office of Public Works, Fehrizal, submitted a request to the Pekalongan DPRD for the remainder of funds. As the proposal and budget had been approved during the tenure of the previous mayor, Fehrizal believed he only needed to ask for approval, so he was not prepared for a refusal. He said to the media, "Why did the DPRD refuse something that was already agreed upon, and why do they think we, the administrators, have not used the funds wisely?" (*Suara Merdeka* 15 February 2005). He eventually managed to get part of the funds from the Department of Finance to complete the stadium.

Today, arguments between members of DPRD and administrators over facilities are common. The use of cars was formerly restricted to

administrators. Members of the DPRD did not dare to use government facilities; in an emergency they would have to borrow a car from administrators. Now politicians demand all the facilities, sometimes unreasonably, according to Ridho (45), a pseudonym, a young staff member in charge of government facilities in the Department of General Affairs. Subur (31), a public servant working in the secretariat of the local DPRD had similar stories. He told me that he was aware that the amount of money claimed by politicians for travel reimbursement was rarely correct.

The behaviour of members of the Pekalongan DPRD is not unique; it can be found in other parts of Indonesia. In his study on Indonesian legislative bodies, Sherlock (2003: 39) recognises that legislators are poorly equipped with the basic skills and knowledge to perform their roles well, but he wonders whether they have become a people's forum or merely a chamber of cronies who do not really do their jobs (Sherlock 2010: 160). Other studies also describe the self-interest and rent-seeking behaviour of politicians (Rinaldi et al. 2007). Regardless of their weaknesses, the legislative bodies and political parties are a centrepiece of liberal democracy (Heywood 2002). They have to learn to work together to govern and deliver policies demanded of them by their electorates. In the meantime, if we are going to understand politics at this level, we also need to take into account how this competition plays out. The informality we find here is very influential in the legislation process.

### c. The relationship between the DPRD and the mayor of Pekalongan

The new challenges in the policy-making process relates to the new role of the mayor and the DPRD. This was shown clearly when the two turned out to have different opinions on the agreement the mayor signed in 2008 with the Surya Institute in Jakarta. Mayor Achmad found out about the Surya Institute, led by Yohanes Surya, from a private math teacher who coached his son in preparation for the university entrance exams. The institute is a well-regarded centre for maths and physics education in Indonesia. The owner is a physicist and has written materials for teachers and textbooks for students. Surya is the coach of the national Indonesian Physics Team for the Olympiad, and he has helped many Indonesian students to compete at the international level.

Achmad organized the signing of the agreement with Surya personally without formal coordination with administrators from the education office or the Pekalongan DPRD, as he should have done. He asked a politician from DPRD whom he knows personally from his Golkar party network, and the head of the Social Justice Party, PKS, branch in Pekalongan to join him in Jakarta to sign the contract of cooperation. However, there was a backlash. When he returned to Pekalongan, some DPRD members used their democratic right to mount a challenge against Ahmad. The fact that the decision on cooperation with the Surya Institute was signed without prior consultation with the DPRD annoyed many of the members. In addition, since the decision was taken personally by the mayor without consulting school principals, many school principals refused to follow the mayor's instructions. This is because they had to spend their budgetary allowance to buy the Surya textbooks.[57] Principals argued that the students already had similar textbooks, and that the materials would not help students to prepare for their national exams. Some members of the DPRD backed the school principals, as well as several local NGOs, following the same line of argument (*Radar Pekalongan*, 18 March 2008).

After being challenged and criticized indirectly, Achmad then had to react and summoned all of the principals to a meeting, described by local newspapers as tense and emotional. The mayor, in recognition of the limits of his authority, said he never intended to force schools to procure the books, but expressed his disappointment by the refusal of some principals to cooperate. Objections from school principals, DPRD members, and members of the Pekalongan Board of Education were to no avail, as the agreement with the Surya Institute had already been signed and could not be cancelled. Afterwards, Ahmad did take revenge in an area where he had sole authority and transferred the head of the governmental educational office to another position. He also replaced some school principals, although he still needed the support of loyal members of the Pekalongan DPRD to do so (*Radar Pekalongan,* 18 March 2008).

[57]The total cost of the program was IDR 756 million (US$ 75,600) for 169 public and private elementary schools in Pekalongan. Schools were expected to pay from their School Subsidy Budget (*Bantuan Operasional Sekolah,* BOS). The program consists of general lectures on science and mathematics for teachers to improve their skills and of textbooks for students.

### d. The relationship of the mayor of Pekalongan and the administrators

Administrators also had to adapt to the new policy-making processes and adjust to the fact that the mayor of Pekalongan is elected. As described at the beginning of this chapter, the mayor is elected through direct election, so he or she has a public and political position, but the mayor is also the head of the executive wing of the government. Thus the mayor has two functions: one political and one administrative. As a result, he can have different positions vis-à-vis the members of the DPRD and the administrators. Concerning government administration, the mayor now decides on things that had been considered routine matters, such as the extension of employment contracts. This sometimes leads to tensions with administrators as the next example shows.

Sixty-four-year-old, Mr Muhammad (a pseudonym) had been working as a public servant for 40 years and had reached the highest ranks of the local government career system. In 2006 he had become the regional secretary of Pekalongan. In that year, his boss, the mayor, became the first democratically elected mayor of Pekalongan. Mr Muhammad was the coordinator of the poverty eradication program. Golkar demanded that these funds should be channelled via the cadres of their party, rather than distributed to the poor communities in Pekalongan directly based on the data that the Pekalongan Government has. Mr Muhammad thought this unacceptable and told me that he was determined to stop political influence executed through the distribution of funds to enhance some parties' influence. He managed to ignore the attempts made by Golkar party cadres to control the funds at a meeting, which they were not supposed to attend. However, the mayor (who is a member of Golkar) had given the party cadres permission to attend and was therefore displeased with Mr Muhammad 's behaviour. As Mr Muhammad would soon retire, the mayor did not do or say anything to him.

Mr Muhammad had planned to request an extension of his employment period, something which was normally a routine and minor administrative matter. However, the mayor rejected his request, and, an even greater snub, Mr Muhammad was given no official retirement farewell reception. Many administrators regarded this as a disgrace to treat such a committed civil

servant in this way. 'The politicians have really invaded us, and we cannot do anything about it, 'Hakimul Purbo (a pseudonym), an administrator in the public relations division, commented to me.

The political process I have described suggests that the institutions and working of democracy have not yet resulted in a better quality of policy-making among the three main actors in Pekalongan politics. What has happened is that actors attempt to show and exert their power. The policy-making process has become primarily a way to show power and to show off how much power one possesses: the DPRD and mayor exert power over the administrators; and the DPRD and the mayor are in constant competition. The strong political legitimacy of the mayor, through his direct election, and his popularity has enhanced his power in the policy-making process, but it has also enabled abuse. The DPRD is incapable of controlling him. This political competition and the new powerful actors at the local level open up opportunities for business actors to engage in political processes for their own benefit.

## Conclusion

Democracy has bseen established in Pekalongan since 2001. We find both competition and people's participation, two key indicators of democracy as defined by Dahl (1998: 38). There are regular elections, and there is a division of authority, although not uncontested, between the different political actors. Democracy has brought about changes with the emergence of different political actors, including the revitalization of the political roles of the local parliament (DPRD) and active civil society organizations. In terms of the relationships between the various political actors, they are still struggling to establish themselves in their new roles. Too often, elected members of the DPRD are unqualified and not competent for the new roles thrust upon them, or they use their positions for their own interest and prestige. They have to learn to work together with the administrators and technocrats, a process which requires adjustment on all sides.

The new powers enjoyed by members of the DPRD have made them important actors and people in the city. Many members wield their new power with confidence, using bold displays and symbolic gestures, to make sure that administrators at all levels follow their instructions and respect them. Nonetheless, their role and actions stay largely symbolic and clientalistic. They do little to use their political advantage to introduce programs of change for the Pekalongan people. For example, there have been no discussions in the DPRD about the need for funds to avoid the yearly flooding in northern Pekalongan, nor to solve the problem of drug use among youths, or to deal with the problems of the key batik sector, an important part of the Pekalongan economy.

On the level of civil society, there has been an increase in the number of civil society organizations. They take their role as a watchdog over government seriously, although some of them are co-opted by politicians and act as political instruments for particular interest groups.

What we can also observe from the description above is that politics is run by the logic of informality, including clientelism, personal connections among political actors, party interests, and personalized relationships. This at least is obvious in the linkage between voters and politicians, and in the process of

policymaking—for instance, in the way the mayor approached members of the DPRD who are close to him in the disagreements over working with the Surya Institute, a clear case of clientelism involving rewards in exchange for support of a politician. New electoral democracy in Pekalongan thus goes hand in hand with the practice of clientelistic behaviour. As Kitschelt and Wilkinson (2007: 2) suggest, the practice of electoral democracy does not automatically make clientelistic behaviour disappear, especially in a developing democracy, such as Indonesia. Democracy is often seen only as an instrument to resolve conflicts or to negotiate among the political actors at the local level; it does not extend and guarantee the establishment of pluralism or respect for human rights (Van Klinken 2009b: 149).

The relational networks formed among political actors as described in this chapter determine contemporary political life in Pekalongan and make up the context of business life in town. The plurality of political actors in Pekalongan during the post-Soeharto era has had severe implications for new actors involved in the policy-making processes including the business sector. Any businessperson who wants to secure projects in Pekalongan has to be aware of the various political actors and their networks. In addition, businesspeople must understand how politics and policy making are coloured by informality and clientelism. The knowledge of institutional rules and policies will not be enough for businesspeople to access projects.

In the next two chapters we will take a closer look at business in Pekalongan, and see how businesspeople respond to and use the practice of informality, which characterizes the political dynamics in Pekalongan, to further their business interests. Chapter Five describes the business strategies of the entrepreneurs in the batik industry, while Chapter Six analyses the construction sector. Both chapters focus on the changes in government policies over the past few decades: the abolition of state protection, in the case of the batik sector in the early 1970s, and the introduction of deregulation, in the case of the construction sector in the mid-2000s.

# Chapter 5

# CHAPTER 5
# FROM PROTECTED BUSINESS TO CULTURAL HERITAGE THE CASE OF THE BATIK INDUSTRY

The present chapter explores business strategies in the batik industry in relation to changing market circumstances and political developments. It starts with a brief description of small-scale batik entrepreneurs during the period of state protection, in the 1950s and 1960s, and the subsequent demise of the industry following the end of government support, in the early 1970s. These changes led in part to a stronger articulation of ethnic differences, especially between the pribumi/Javanese and Chinese-Indonesian businessmen. Several of the smaller businessmen of the older generation reacted to the new situation by economic diversification, while a similar strategy was pursued at the collective level by the long-established batik cooperative associations. Other businessmen used whatever means at their disposal to survive, such as political influence and social status: some politicians used the long-established popularity of batik production in Pekalongan as a means to pursue their political goals. Most prominent among the batik producers today are those young businessmen and women who have been able to strengthen their economic positions by reinventing batik as a cultural heritage

## 1. State Support and Its Withdrawal

### a. Easy money

As described in Chapter Two, state protection of the batik industry started in the years immediately following the independence of Indonesia and reached its peak during the 1960s. In the 1950s, a group of nationalist politicians established the so-called 'Benteng Program', which consisted of support to small-scale entrepreneurs in sectors known for their high absorption of human labour. In the case of the textile sector, and in particular with regard to the production of batik, this resulted in the allocation of quotas of imported raw materials at prices below the market value, especially of cotton and chemical dyes. As a long-term centre of batik production, the businessmen of Pekalongan benefitted to a great extent from this period of protection, locally known as the *zaman jatah* or 'era of allocation'.

During this era of allocation in the 1950s and 1960s, it was relatively easy to earn a living, as recalled by Pak Siyono, pseudonym, (born 1938):

> I was a batik producer at that time. Whatever the quality of the (stamped) batik I produced, when I brought it to the market on Jalan Surabaya all of it would be sold. At that time, many buyers came from all over Indonesia to Pekalongan to buy batik, which they would sell in their home regions. During those days, I would sell my finished products within a week. I earned enough money from batik to raise my seven children and live comfortably. (Interview 14 August 2008).

During this period of protection and allocation of state-subsidized raw materials, it was common among the batik entrepreneurs in Pekalongan to resell part of their quota and thereby to make easy money, even though this was illegal. Pak Imron, pseudonym, (born 1944) recalled how he used to travel by train from Pekalongan to West Java to sell subsidized cotton material from his parents' batik enterprise to relatives in Tasikmalaya:

> I regularly used to take the train to West Java in the 1960s to sell cotton material that was allocated to our factory. Because of the subsidized prices we could make a good profit by selling it to our relatives in West Java. It was, however, illegal to bring

> the cotton that was allocated to one's factory to another place or city; subsidized cloth was to be used only in the factory that had obtained the quota.
>
> In those days, there were regular inspections on the roads and in the trains going out of Pekalongan. Before I used to leave my house for West Java, I wrapped the cotton around my body and then put on my clothes. By hiding it this way, I was never caught. There were other strategies used to smuggle cotton from Pekalongan to other places. A friend of mine transported his cotton in a coffin several times. No inspector or policeman ever expected this, and they did not dare to ask him to open the coffin. All of us made good money by selling part of our allocated cotton to people outside Pekalongan, especially to textile entrepreneurs in West Java. (Interview 28 March 2008).

Some people were even able to receive subsidized raw materials, although they did not produce any batik at all. They mostly belonged to the staff of the cooperative society of batik producers. One of them recalled how his family used to cheat the inspection officers during their occasional visits, by temporarily borrowing batik equipment and tools from neighbours. In this way, they could pretend to be a batik entrepreneur, as a result of which they received subsidized raw materials; they then resold it for higher prices.

> Djazuli (born 1932): We never produced any batik ourselves but were able to get a substantial amount of raw materials at subsidized prices. Our house has never been dirty from batik production, and it has also always been quiet, no noise was ever heard from workers producing batik. Because I was a staff member of the batik cooperative, my family could obtain a quota of cotton at a subsidized rate. We were supposed to make batik of it. But we sold it to our Chinese neighbour who was a real batik producer. Whenever government inspectors came, I knew about it beforehand due to my work at the cooperative society. We then used to borrow two or three tables from my neighbour, invited two or three male workers from his factory to my house and asked them to stamp cotton with batik motifs. In this way, we pretended to be active entrepreneurs who produced batik. We were not the only ones in our neighbourhood who resold their quotas acquired in this way; we all made handsome profits. (Interview 2 June 2008)

Due partly to the profits made from illegal sales of subsidized raw materials, the era of allocation resulted in substantial wealth among elite batik entrepreneurs, especially in Pekalongan. The heyday of the batik industry in the 1960s is still remembered by this older generation of batik businessmen, who never seemed to be tired of telling stories about the glorious past enjoyed by their families. These stories usually include descriptions of houses with pillars and large verandas and even Roman statues in the front gardens. The old horse carriage that still stands in the front yard of Pak Ahmad (born in 1934), and the three doors that give entrance to his house, bring to mind those early days in which wealthy batik entrepreneurs in Pekalongan used to travel by horse carriage. The houses of the larger businessmen had three doors of different sizes: one for people, one for the horse and one for the horse carriage (see picture 5.1).

**Picture 5.1** The house of a former batik entrepreneur

Photo by author

Other accounts of the accumulated wealth in those days refer to the presence of imported cars and new motor cycles, to pilgrimages to Mecca and to screenings of the latest movies in trendy cinemas, as is shown in the following story by H Zaki Arslan Djunaid, son of H Achmad Djunaid, one of the wealthiest and most powerful batik entrepreneurs of Pekalongan in the 1950s

and 1960s, whose family was already introduced in the beginning of this this thesis.

> I was a teenager in the 1950s. I had everything that a teenager could wish for in his life. As director of GKBI (Indonesian Association of Batik Cooperatives), my father used to live in Jakarta, and he once sent me the most trendy imported motorcycle from Jakarta. I used to race on it with a group of friends on the main streets of Pekalongan. No one could stop us, not even the police. We used to smoke Phillip Morris cigarettes, which were very expensive as they were imported. My family had a ranch on the outskirts of Pekalongan where we kept horses. During those years my parents went on pilgrimage to Mecca several times. I can't even remember how many times. Life was great during those days; I really had a wonderful time when I was young. (Interview 20 May 2008).

**b. End of an era**

These illustrations of conspicuous displays of wealth have contributed to the notion that this period of state support and protection did not result in the rise of a class of indigenous entrepreneurs, as was its original aim. Rather it created a class of spoilt businessmen, who obtained their profits through rent seeking instead of developing their production process through reinvestments. With the emphasis on economic growth and global competitiveness after Soeharto's rise to power, the small business sector was therefore viewed as inefficient and non-productive (Papanek 2006: 90). State protection for small enterprises was withdrawn and the focus of government policies shifted to providing support and facilities to large enterprises and to international capital.

The main emphasis in state policy during the early days of Soeharto's New Order Regime was directed towards economic growth by attracting international capital to set up large, capital-intensive enterprises that could compete at the international level. The textile sector was among the first sectors in which this economic policy was introduced. The import of raw materials and modern machinery for textile production was eased, and the establishment of large-scale textile factories was encouraged. At the same time, protective measures in the field of cotton and chemical dyes, which are

vital for the production of batik, were abolished and they had to be purchased at market prices. As a result, entrepreneurs in the batik sector were unable to compete with the large-scale capital textile producers who manufactured cloth printed with batik motifs at much lower costs and in much larger quantities. In one round of production, usually a two-week period, a large-scale enterprise can produce about 400 rolls, or 1,000 metres, of stamped batik cloth. The output calculated for just one day is thus hundreds of times the output of a traditional enterprise.

The serious implication in this shift in policy orientation in the 1970s for the batik entrepreneurs in Pekalongan is illustrated in the following remarks by Maria (born 1953), a former batik producer in the centre of the city.

> When printed batik came out, that was the worst thing that ever happened to our business. We were all swept away by printing technology. Printed batik is much cheaper than our traditional batik. I tried to hold on when the quota system had stopped, and there was no allocation of dyes and cotton. But when printing technology was introduced, and they started with mass production of printed batik cloth, I gave up. I sold off my stamps, released my workers, and converted my production house into a rental unit. And I was not the only one: almost 80 percent of the producers in my neighbourhood have stopped their production over the last thirty years. (Interview 20 March 2008)

Maria's case is an illustration of the overall decline in traditional batik production in Pekalongan following the changes in economic policies at the national level. In the neighbourhoods located in the centre of Pekalongan most of the households were involved in batik production during the heyday of the era of allocation in the 1950s and 1960s. In the central ward of Kauman, one of the oldest centres of batik production in the city, this percentage was as high as 80 per cent. Since the 1970s, batik production in these neighbourhoods has declined dramatically and according to informants, survey information, and my own estimation, only a quarter of the original enterprises have remained. While there were an estimated 168 batik enterprises operating in the six central wards in the 1950s and 1960s, in 2008 there were only 42 batik

or batik-related businesses left (see table 5.1). Moreover, only half of these businesses actually still produce batik; the others were involved in marketing batik cloth or other types of batik products. Overall, no more than five per cent of the total working population in the central ward of Kauman is still involved in batik or a batik-related business.

**Table 5.1** Number of batik enterprises in in main production centres in Pekalongan

| Ward (*kelurahan*) | Number of batik enterprises in 2008 |
|---|---|
| Bendan | 4 |
| Kauman | 7 |
| Kergon | 10 |
| Klego | 4 |
| Noyontaan | 7 |
| Sampangan | 10 |
| **Total** | **42** |

Source: Survey data 2008-2009

This dramatic decline in batik production over the past few decades is clearly noticeable in the day-to-day affairs within the old neighbourhoods in the centre of Pekalongan. Streets that once were characterized by the noise coming from batik production in the houses and from becak and trucks loading and unloading goods are now quiet and without much traffic, as shown in the following account by Ani (born 1973), member of one of the former batik entrepreneurial families in the Kauman area.

> Since I was small I have lived in the batik environment as my parents ran a batik workshop, and that's how they and their parents made a living. I was used to being surrounded by all types of copper stamps, cotton, the smell of burning wax, and batik workers walking back and forth in our house. In the mid-1970s, when I was really small, my family had to leave the business and sold off all the batik tools we had. Ever since, the smell of burning wax has slowly disappeared. Vespa's that used

> to be noisy transporting cotton and ready-made batik products no longer move around my area. My father even sold his Vespa as he no longer needed it. At that time, I remember that almost all my neighbours and relatives who visited our house had stained nails due to mixing and colouring batik sheets. Now I rarely see any men with coloured nails. (Interview 15 May 2008)

## 2. Articulation of Ethnic Diferences

As described in Chapter Three, the entrepreneurs in the batik sector in Pekalongan belong to three ethnic communities: Javanese Muslims, Arab Indonesians and Chinese Indonesians. The majority of the small- and medium-scale traditional batik businesses are owned by families of Javanese-Muslim origin. They are the ones who benefitted from the support measures under the Benteng program by the Indonesian state in the 1950s and 1960s. An important aim of the Benteng program was not only to strengthen small enterprises but especially to support the native or pribumi entrepreneurs, as a political tool to counteract the economically dominant position of Chinese Indonesians in the early period after independence.

The notion that the Benteng program of state protection created a class of rent-seeking businessmen instead of productive entrepreneurs gave further support to the overall and already-existing prejudice among Chinese Indonesians that Javanese are mainly consumption-oriented and lack a good work ethic; they are unwilling and unable to defer gratification and therefore do not reinvest their profits in their enterprises. This stands in contrast to the general ideas held about businessmen of Chinese-Indonesian backgrounds, who are supposed to be inclined to save money and to focus on developing their business undertakings. One Chinese-Indonesian businessmen in Pekalongan summed it up like this for me:

> When a Javanese businessman has a neighbour with a new car or furniture, he or she will be jealous and will immediately buy the same thing, if they have money. The Chinese never do that. We like to save our money or to reinvest our profits in a bigger business, rather than buying consumption goods such as cars

> or furniture. The pribumi loves to show off what they have; we don't. Their work ethic is also weak. We open our shop at seven o'clock in the morning; they open theirs at nine or ten. (Interview Soleh Dahlan 26 June 2008)

Among other ethnic groups, businessmen of Arab-Indonesian background are also often viewed as having characteristics that make them good entrepreneurs. They are usually seen as stingy in their business dealings and smooth talkers, with the skill to persuade. This stereotype of businessmen of Arab-Indonesian backgrounds was captured in an amusing episode of the Indonesian television serial, Suami-suami takut istri (Husbands who are afraid of their wives).

> Three women were upset with an Arab trader who sold them textile clothes. On the package it was written that the colour was guaranteed not to run (*dijamin tidak luntur*). When the women washed their new clothes, the colour did run and it was spoilt. To protest to the trader, the women then dropped by his house. They asked the trader how it was possible that although it is written on the package that the colour is guaranteed, their clothes got spoilt after the first washing. The trader then replied that because he is of Arab background, he always reads sentences from right to left. And he showed the women that if you do that, you do not get dijamin tidak luntur (it is guaranteed that the product will not lose its colour), but *luntur tidak dijamin* (losing colour is not guaranteed).[58]

Although stereotypes about the different ethnic communities among the batik entrepreneurs in Pekalongan have long existed, they became more articulated following the increased competition after the policy changes in the 1970s. With the disappearance of the Benteng support program for small enterprises owned by businessmen, the entrepreneurs of pribumi Javanese-Muslim origin, the cooperative society of batik entrepreneurs in Pekalongan openly accused the Soeharto government of favouring Chinese Indonesian businessmen at the expense of the so-called original inhabitants of Indonesia. The Minister of Industry, Ali Wardhana, counteracted this accusation by

[58] Transl. TV Re-run Serial of 'Suami-suami takut istri', May 2008.

emphasizing the economic and technocratic motives behind the government decision to support Chinese-Indonesian businessmen who are more experienced in running large-scale and capital-intensive enterprises, which Indonesia needed in order to achieve economic growth (*Tempo*, 8 July 1972).

The economic success of the Chinese-Indonesian businessmen during the Soeharto regime resulted in a further strengthening of the negative views about them among most of my informants of Javanese and Arab backgrounds in Pekalongan. They often accused the Chinese Indonesians of having a business ethic in which anything is allowed as long as it makes a profit (*menghalalkan segala cara*), even if that means breaking the law. This was most clearly shown in their accusation that batik entrepreneurs of Chinese-Indonesian backgrounds mainly became successful because of illegal business practices, especially by copying design patterns.

Copying of design patterns has been for many years a common practice in Pekalongan, and in fact it is a practice that fills local businessmen with pride. Batik entrepreneurs of the region have the reputation of being be able to copy batik motifs and colours by just looking at a new design once (Fraser-Lu 1986: 65). Almost all the entrepreneurs of Javanese-Muslim origin I met remarked with pride that:

> Batik entrepreneurs in Pekalongan can produce any type of batik design exactly like the original pattern. By just looking at a new batik design, we are able to produce the same pattern in the same colour, even on the very next day.

This practice is known locally as *nembak* (shooting). Although copying without permission is often viewed as an entrepreneurial skill of the pribumi batik entrepreneurs in Pekalongan, the same behaviour is seen in a much more negative light when practiced by entrepreneurs of Chinese-Indonesian origin. Accusations of unfair business practices became more common with the decline of the batik industry. More often than not, successful batik businessmen of Chinese-Indonesian origin are the focus of such stereotyping, as is shown in the case of businesswoman Bunga.

Bunga (born 1970) is a Chinese-Indonesian entrepreneur who owns a batik workshop and outlet located on the border of Pekalongan city and Batang district. Her name often came up in conversations in relation to copying of batik patterns. More than six batik entrepreneurs of Javanese-Muslim and Arab-Indonesian origin referred to her as someone who copies the designs of others and claims it as her own work. The owner of one of the old batik enterprises in Kauman, Melati (born 1943), accused Bunga of having copied one of her designs and colours after she had been to her workshop to buy some of her batik products. According to Melati, this way of cheating in business by Bunga is due to her ethnic background.

Not only is Bunga accused of copying and stealing designs from others, she is also said to use her female charms to enhance her business. During one of my visits to her workshop, I could see why this accusation was levelled against her. Wearing a short skirt baring her legs and large parts of her thighs, she received a male government official from the neighbouring district. She welcomed him warmly, and, sitting next to the government official, I was able to see her underwear. Although Bunga was relaxed and did not seem to consciously make use of her femininity, it was this behaviour that gave fuel to the rumours that she used her charms to get favours for her business enterprise from local government officials.

In several instances, businessmen of Javanese-Muslim and Arab-Indonesian backgrounds in Pekalongan positioned their accusations of unfair business practices against Chinese-Indonesian batik entrepreneurs in religious terms. They referred to the business practices of Chinese-Indonesian businessmen as being haram, meaning 'not righteous' or 'improper'. This term was especially used to describe their Chinese-Indonesian business partners with whom they had broken up in the past. At the same time, the Chinese-Indonesian entrepreneurs viewed the similarity in religious background between Javanese-Muslim and Indonesian-Arab businessmen as one of the reasons the two sometimes joined forces against them. This was evident also in the way in which the Chinese-Indonesian businesswoman Bunga, described above, attributed the discrimination she faces at exhibition events to the Muslim backgrounds of the board members of the local branch of the

Indonesian Handicraft Exporters Association, ASEPHI.

> The annual batik exhibition organized by ASEPHI takes place in Jakarta, and it is the board members of the Pekalongan branch of ASEPHI who distribute the allocation of the booths; it is a board that is dominated by businessmen of Indonesian-Arab origin, who are supported by Muslim-Javanese members. It is generally accepted that the best booths are located in the corners of the hall. When I asked Bunga about the allocation procedures of the booths, she replied: "I never get one of the best booths, because the chairpersons of the ASEPHI board take them. I know why I never get one. I am the only 'white face' (pointing to her face—meaning fair-skinned Chinese complexion) in ASEPHI Pekalongan. ASEPHI is run by Arab-Indonesians and they do not like me. They also always accuse me of copying and stealing other people's creativity. I ask you, who does not copy batik patterns of others in Pekalongan? All of us are copying one another. If they think I copy because I am Chinese and not Muslim, then who are they who also copy?" (Interview 23 May 2008).

## 3. Economic diversification

The decline in the batik industry of Pekalongan resulted not only in the articulation of ethnic differences but also in the diversification of economic activities by entrepreneurs to counteract the loss in business opportunities. Over the past decades, several batik entrepreneurs in Pekalongan have set up new business activities alongside their batik enterprises. Some of these activities are related to the textile sector, as is the case with Pak Rahman (born 1949), who started to produce sarong *palekat* (a sarong with a coloured checked pattern and worn by men, particularly Muslim men when they pray) alongside his small batik workshop. Although he operates this new seasonal activity on a small scale basis only, he said that he is able to "…make a fortune from this business during Ramadan and Idul Fitri."

Other entrepreneurs managed to supplement their low incomes from batik with profits from economic activities they happened to stumble upon, such as Purna (born 1968), the owner of Zend Batik, who got involved in the sale of antique goods. Although the market for antiques is limited, it provides him with an additional income that partly compensates for the decline in

the income he makes from his batik enterprise. He explained to me how he became involved in antiques:

> Since 2003 I have travelled to the Netherlands every two years to join the Pasar Tong-tong (a large annual market in Europe for Indonesian products). During one of my first trips, I found an old lamp in a flea market in The Hague. I brought the lamp to Indonesia, carrying it in my luggage. When I got home, I found a buyer who liked the lamp and was willing to pay almost five times the price I paid for it. Since then, I always try to make time during my visits to the Pasar Tong-tong to hunt for antiques in the Netherlands. It is a good business and helps me, especially when the batik market is going slow. (Interview 5 June 2008).

Several businessmen used their political contacts to shift their family economic interests after the downfall of their batik enterprises. The family of the former head of the National Mandate Party (PAN), Soetrisno Bahir, used to be the owner of BL, one of the older and larger batik factories in Pekalongan. The enterprise, named after Soetrisno's parents, Bahir and Latifah, was established after independence in the 1940s. During the protection era they benefited from the quota system, but were unable to maintain their profits when the subsidies for batik production ended. Over time, their factory ran into losses, and in the 1970s the family business went bankrupt. In the meantime, however, Soetrisno's brother, Kamaludin Bahir, had already started to reorient the family business towards other kinds of activities. In early 1980, he got involved in real estate with the construction of the 'Bina Griya' a housing complex in Pekalongan. The political contacts of his brother Soetrisno helped the family to get credit for this undertaking from the National Saving Bank, BTN (Bank Tabungan Negara). Following this first success, Kamaluddin then established the holding company Ikamuda, with which he expanded the business activities of the family into prawn cultivation, rattan production, poultry husbandry and print media. In this, the political contacts of Soetrisno proved useful in widening the geographical scope of their activities beyond Pekalongan to Central Java, Lampung (Sumatera) and Jakarta.

At the level of cooperative societies, similar shifts in economic strategies were pursued in reaction to the decline in the batik sector. At the national

level, the Association of Batik Cooperatives, GKBI, transformed itself into a holding company with textile production as its core business. In 1960, GKBI, in a joint venture with a Dutch investor, established a cotton factory in Medari, Central Java[59]. In 1985, GKBI set up another cotton factory, PT Primatexco, in Batang, Central Java; this time with a Japanese investor. Both these factories manufactured mainly for the export market and only a limited proportion was destined for domestic consumption. Almost three fourths of the output of GKBI's cotton factory in Medari was exported (Robison 1986: 44-46). As a result, the former defender of government protection for traditional batik producers has become a major player in the textile industry. By adopting such a business strategy, GKBI followed the change in government policy and was again able to benefit from government subsidies, this time in the field of large-scale textile manufacturing.

At the local level, the Pekalongan Indonesian Batik Cooperative, PPIP, also reacted to the change in government policy by diversifying its economic interests. After a period of disorientation, it decided to convert the former PPIP office on Jalan Agus Salim into a multi-functional building to be rented out to the public. In 2008, another PPIP property located on Jalan Dr Cipto was converted into a market hall for batik products. Since then, the income of PPIP comes from these two real estate properties, and the cooperative no longer depends on the distribution of raw materials and final products from the batik sector.

On top of this emphasis on real estate, several leading members of PPIP decided to start a new loan and savings scheme. On 3 March 1974, when the first signs of the decline in the batik industry became apparent, leading figures within the PPIP, including Achmad Djunadi, Mirza Djahri, Trisno Akwan, and Mukmin Bakri, as well as the two Chinese-Indonesian members Ang Tiang Soen and Thio Tek Djhiang, established the savings and loan cooperative JASA (Kartanegara 2007).

[59] Profile of PT Primissima in Medari is sourced from http://www.bumn.go.id/primissima/id/tentang-kami/tentang-perusahaan/

**Picture 5.2** JASA Cooperative head office in Pekalongan

Photo by author

Today, JASA is the largest savings and loan cooperative in Indonesia, with assets of more than IDR 1 trillion (US$ 1 million) and 56 branches throughout Indonesia. It operates like a normal bank with demand and time deposits, discount notes, loans, cheques, drafts and notes, certified depositor checks, and cashier/bank cheques. Recently, it installed automatic teller machines (ATMs) in its branches in Java, Bali and Sumatera. In 2008, it was also running seven business units in various sectors, such as a printing press, a *syariah* cooperative, a pension fund, the MASA magazine, a real estate business, a *syariah*-based pawnshop, and a health insurance company.

As we saw in Chapter One, JASA managed to operate as a full commercial bank, because of Achmad Djunaid's informal connections at the Ministry of Cooperatives, and his son continues his father's lobby work with their friends in the ministry. JASA, however, has created a legal problem for the authorities. In 2008, there were no regulations for microfinance institutions, formally called non-bank microfinance institutions.[60] Bank Indonesia, the Indonesian

[60] Other forms of microfinance institutions are rural credit fund foundations (*Lembaga Dana Kredit Pedesaan*, LDKP), *syariah*-based financial institutions (*Baitulmal Wa Tanwil*, BMT), self-sufficient community groups (*Kelompok Swadaya Masyarakat*, KSM), credit unions, etc.

Reserve Bank, has so far been very hesitant to allow microfinance institutions like JASA to operate as a bank. It attempts to regulate the financial sector by setting strict standards for the establishment of microfinance institutions, in order to guarantee the security of public funds. This means that microfinance institutions like JASA have to comply with the same regulations as a regular bank, which includes the approval by Bank Indonesia of its organizational structure and the quality control of its staff.[61] Since 2010, JASA has resisted any attempt by the government to regulate its banking activities, though not openly. It claims to be a multicultural cooperative society that is based on the traditional Indonesian principle of *gotong royong* (mutual aid). It accuses the central government in Jakarta, especially the Ministry of Finance, of adopting a pro-capitalist ideology instead of supporting local initiatives from below.

In 2001 the Ministry of Cooperative submitted a new bill on Cooperatives. The submission was part of regulating the collection of public funds through non-banking institutions, including cooperatives. The bill aims to ensure accountability of public funding, which is a responsibility of the government. Within the framework of the former Cooperative Bill, only a minimum of twenty people was required to establish a cooperative society and to form a microfinance unit. Any non-member who wishes to access the cooperative's services must first register a membership request. For that reason, the majority of the clients of the original Pekalongan Indonesian Batik Cooperative, PPIP, were made pending members (*calon anggota*). With the expansion in services that has occurred in recent years, such as the Safari Saving (Tabungan Safari) scheme with 30,000 accounts, it would be quite impractical for all the clients to become full members, as argued by Andi Arslan Djunaid who is the deputy of the savings section in JASA.

> If JASA followed the rules laid down by the Indonesian Central Bank, all 30,000 owners of accounts would have to be members of JASA. Can you imagine the operating costs and how much I would have to outlay for 30,000 accounts? It would be too costly. What we do for the clients is to make them pending or 'potential' members. It means we don't have to arrange routine membership, issue special IDs, or distribute cooperative profits

61 Bank Indonesia Regulation 11/1/PBI/ 2009.

at the end of the year [62]. (Interview 10 September 2008)

The director of JASA, Zaki Arslan Djunaid (Andi Arslan Djunaid's father), emphasized that he is against the proposed bill, as it is 'capitalistic' and 'imperialistic'. He argued that the proposed bill on cooperatives only protects big banks and does not account for small and medium financial institutions. He looked really emotional commenting on the public discourse on the proposed bill.

> This is what I said to the members of national parliament when I was invited to a meeting there. This country never protects small-scale business. Our founding fathers established cooperatives as the foundation of our economy. Now the government only thinks about big business, and there are no representatives of cooperatives in the discussion of the Cooperatives Bill. The ones who understand about cooperatives are those who are important figures in cooperatives", said Zaki in one of our interviews. After pausing for a while, lighting a cigarette, he continued, "We will find ways to circumvent the bill" (Interview 20 May 2008)

The bill that regulates micro-finance institutions had been approved in 2013. However, the government has not issued the implementing regulations. Until they are issued, JASA continues to operate under the Cooperatives Bill (UU Perkoperasian).

## 4. Elites using batik for political and economic advantage

As described above, the downfall of the batik industry in Pekalongan resulted partly in the articulation of ethnic differences among the businessmen, and also in their emphasis on economic diversification at the individual and collective level to counteract the loss in business opportunities. In some cases, elite businessmen were able to maintain their businesses by taking economic advantage from their social status, while some politicians used the long-established popularity of batik production in Pekalongan as a means to pursue their political ambitions.

[62] *Sisa Hasil Usaha*, SHU

The case of Fatchiyah Abdulkadir (born 1940s), better known as Bu Fat, illustrates the high social standing that some of the more successful Batik entrepreneurs of the past still occupy in Pekalongan today. She used to be one of the most successful Batik entrepreneurs in Pekalongan, which allowed her and her family to live a life of luxury.

> Bu Fat is the founder and owner of Tobal, a very successful batik company in Pekalongan in the 1980s and 1990s. Due to collaboration with a business partner in Australia, it became one of the largest exporting companies in Pekalongan during that period (BPS Pekalongan 1994). Part of her business profits were used to support a very luxurious lifestyle. In the early 1990s Bu Fat constructed a large bungalow in 'Spanish style' on 1,000 square metres of land in the centre of Pekalongan. During those days her family owned three cars, one of which was a Mercedes Benz with her own personalized registration number plate, 'F44AT.' As the number plates starting with "F" belong to the Bogor region of West Java, she used to send her car to Bogor each year to get registered. In the late 1990s, she paid for her two children to study in Australia.

During the period of economic success in the 1980s and 1990s, Bu Fat received several awards for her entrepreneurial skills. She was also an active member in various social and economic organizations. She was a member the Pekalongan branch of the Rotary club in the mid-1990s, and in 2004 she was one of the founders of the Pekalongan Batik Lovers Association acting as its chairwoman until 2008. At the national level, Bu Fat was a member of IWAPI, (the Indonesian Businesswomen's Association, *Ikatan Wanita Pengusaha Indonesia*) in the early 1990s. As a member of IWAPI she took part in various international trips to countries in Europe, Africa and Asia.

The success of Bu Fat's company ended in 2000 when her business partner from Australia relocated his business to Vietnam. In those days, the financial crisis had resulted in social upheaval, and Indonesia was no longer considered a safe place to do business. Bu Fat's company had to downsize its activities. Notwithstanding her economic problems, she remains a person of high social standing with recognized expertise in the batik business, both within the Pekalongan community and beyond. She has been able to gain

economic advantage from her social position and her batik enterprise, Tobal, has continued, although on a smaller scale.

> At the various social events that I witnessed during my fieldwork, Bu Fat was always given a prominent seat on the raised platform, alongside the mayor of Pekalongan, the head of the Pekalongan council, representatives of the military, the head of Pekalongan police, and other members of the local elite present. Moreover, she is still regularly consulted by the Pekalongan government on issues related to the batik industry. In 2008, for instance, Bu Fat was asked by the office of trade, industry and cooperatives to give them advice on the introduction of Liquefied Natural Gas (LNG) in the batik industry. Until then, traditional batik producers in Pekalongan used petrol for their production process. This switch meant that the batik industry had to introduce new stoves, and the government asked Bu Fat how to implement this change in Pekalongan.

> Over the past few years, Bu Fat has also been the main resource person for other batik related activities of the government. She is regularly invited to attend seminars in Yogyakarta and Jakarta on the production and marketing of batik. Similarly, when the Pekalongan government receives guests from outside Pekalongan, Bu Fat is often called on to help them out. Although she does not benefit directly from these activities, it has clearly helped her in establishing contacts that are useful to acquire orders for her own batik enterprise.

While entrepreneurs like Bu Fat were able to survive because of their social status, despite the decline of their batik enterprise, some politicians have used the long-established popularity of batik production in Pekalongan as a means to pursue their political ambitions. This is most clearly seen in the way in which the mayor of Pekalongan, Ahmad Basyir, used the Pekalongan Batik Museum.

The plan to establish a batik museum in Pekalongan originally came from the Paguyuban Pencinta Batik Pekalongan, (PPBP), or Pekalongan Batik Lovers Association. After PPBP had successfully organized the batik festival

in 2003, its board members thought up the idea of setting up a batik museum in Pekalongan, as part of their strategy to promote batik in Indonesia and beyond. In the next two years, they looked for a suitable location, conducted a feasibility study for an integrated tourism concept, lobbied with government officials in Pekalongan and in the provincial capital Semarang, and started to search for potential contributors to the museum from among the group of batik collectors in Indonesia.

At the second batik festival organized by PPBP in 2005, Iman Sucipto Umar or Pak Cip (born 1941) organized a two-day seminar on batik. Pak Cip is a businessman from Jakarta and head of Kadin Foundation, the Indonesian Chamber of Commerce, based in Jakarta. Although not working in the field of batik himself, he became interested because his wife and his grandfather originated from Pekalongan. Pak Cip is well-connected to the political scene in Jakarta. One of his friends is the business tycoon Aburizal Bakrie, who was the state Minister of Public Welfare at that time, along with being the chairman of Golkar. Together they brought up the idea of establishing a batik museum in Pekalongan to promote batik in Indonesia and beyond.[63] A follow-up seminar was organized in Jakarta to discuss ways to promote batik from Pekalongan.

[63] Seminar proceedings *Jejak dan Telusur Batik Pekalongan,* Pekalongan 18-19 March 2005.

**Picture 5.3** Pekalongan Batik Museum

Photo by author

After the seminar, Pak Cip presented his ideas to Ahmad Basyir, who had just become the mayor of Pekalongan in September 2005. Basyir was enthusiastic about the proposal to set up a batik museum and offered the use of a piece of land from the local government. From then on, Pak Cip and the Pekalongan administration took the lead and side-tracked PPBP, the original initiators of the museum. When I asked mayor Basyir why he had chosen to work with someone from Jakarta instead of working with the board members of PPBP, he answered: "Pekalongan people are very local, they don't have the networks to mobilize sufficient resources. It would have been impossible to set up a batik museum in Pekalongan without help from outsiders, such as Pak Cip."

In July 2006, the batik museum was inaugurated by the President of Indonesia, Susilo Bambang Yudhoyono. Most of the funds for the construction and interior of the museum were provided by the Kadin Foundation, which also contributed almost 90 percent of the total budget of IDR 207.5 million (US$ 20,750) during the first year of its existence. In 2007, Vice-President of

Indonesia, M Jusuf Kalla, came to Pekalongan to conduct the opening ceremony of the 2007 International Batik Festival which took place in the museum building.

The visits to Pekalongan by both the President and Vice-President of Indonesia strengthened the position of Mayor Basyir, both at the local and national level. The museum became his pet project through which he established an image as a progressive patron of the city's batik industry. On top of that, it has enabled him to increase the batik enterprise of his family, which was established in 1998 by his wife. Every visit by high level officials to the batik museum was used to promote the batik products of the mayor's family business.

> During an official visit of an UNESCO representative from Paris in 2008, which I attended, one of the employees of the mayor's family batik shop approached the guests to present them with a small bag with batik souvenirs. On the bag the brand name of the mayor's wife's factory was printed. This was done while the guests were still listening to the presentation by one of the board members of PPBP, a batik producer who belongs to one of the older batik families of Kauman, the traditional batik centre of Pekalongan. The employee of the mayor's wife's batik shop had clearly been instructed to present the bags before the end of the presentation, to make sure that the guests would receive a sample of their products first.

In 2008, the mayor's family changed the organizational structure of the museum to suit their own business interests. Since its establishment in 2006, the museum was administrated by the Museum Batik Institution (*Lembaga Museum Batik*, LMB), which included the main sponsors of the museum: The Indonesian Chamber of Commerce, the Indonesia Batik Foundation and the Pekalongan government. As agreed upon, the financial contribution from the Jakarta-based organizations was lowered from the second year onwards: in 2008 more than 50 per cent of the total budget of IDR 578 million (US$ 57,800) was borne by the Pekalongan local government.[64] Following this change in budget, the mayor decided to change the organizational structure of

[64] Proceedings Seminar Sehari Museum Batik: Revitalisasi dan Pengembangan Museum Batik 2008-2013, Jakarta 23 January 2008.

the museum and to appoint his own wife as general manager. The Indonesian Chamber of Commerce was not happy with this change and in 2010 decided to withdraw its participation in the management of the museum.

The takeover of the museum by the mayor and his relatives has also been heavily criticized by the board members of PPBP. Having been the original initiators of the museum and the founders of the batik festival, they feel completely left out, despite the fact that the name PPBP is mentioned at the entrance of the museum. They use every opportunity to accuse the mayor of acting in the self-interest of his family's enterprise. The point to his family's very recent entrance into the batik industry and emphasize that his wife is only a rookie in the batik business, "*dia orang baru di dunia batik Pekalongan.*"

Despite this opposition, the mayor has been able to use his position to enhance his business and political interests. Ever since the opening of the museum, his family's batik business has expanded, with new company outlets in Bandung and Jakarta. For this, he made use of the contacts he established through the museum. His reputation as the promoter of the batik industry in Pekalongan has also strengthened his political position in the region. As a result, he got re-elected as the mayor for a new term in 2010.

## 5. Batik as cultural heritage

A new generation of batik entrepreneurs has become active in Pekalongan over the past two decades. They are the sons and daughters of the batik producers who used to operate their enterprises at the time of the era of protection in the 1950s and 1960s. Their strategies are not geared towards acquiring government support, but rather they are focused on developing new batik patterns and designs, finding new marketing opportunities, and establishing new networks and organizations to promote their business interests. Over the past decades, they have organized batik festivals, set up batik centres in the region, created networks among batik producers in Indonesia and campaigned to maintain the authenticity of batik as part of Indonesian cultural heritage and identity.

One important and successful initiative of this younger generation of batik producers was the establishment of the Pekalongan Batik Lovers

Association, PPBP (Paguyuban Pencinta Batik Pekalongan), in 2004.[65] This was the time when the batik market in Pekalongan and Indonesia was at its lowest point; by 2008 PPBP had 80 members. The association aimed to find new ways to promote batik products. PPBP was established one evening after a batik festival in Pekalongan in 2003. The activity with most popular appeal was batik making on the street. It involved more than 1,000 batik makers sitting on the main street of Pekalongan and making batik. There were more than five hundreds booths displaying batik products set up in three different locations in Pekalongan. Throughout the three-day event the whole city was busy. Trains to and from Pekalongan were full. It made headlines in Central Java newspapers and was reported in national papers. Following this success, PPBP was established as a Pekalongan batik community. It continued to conduct batik promotion activities, including a second batik festival in 2005.

This younger generation of batik businessmen and women in Pekalongan is also active in the local branch of the national Indonesian Handicraft Exporters Association, Asephi (*Asosiasi Eksportir Handycraft Indonesia*).[66] Through Asephi they actively search for new opportunities to promote their batik products, both within Indonesia and internationally. Over the past few years, they have participated in exhibitions and made several business trips to other countries in the region. In July 2008, five Asephi board members visited Malaysia and Thailand to promote their batik products and establish marketing networks. They joined an exhibition in Kuala Lumpur where they could study the latest developments in the handicraft industry in Malaysia. They were impressed by the way the Malaysian government supports small-scale handicraft businesses by providing a huge exhibition centre to promote local craft products. One of the Asephi participants, Witri (born 1972), told me, "Our batik is much better than Malaysia's, our business potential is greater than theirs, but unfortunately we have no support from our government. I learnt a lot from the trip and it opened my eyes to how important it is to establish business networks in the ASEAN region."

Apart from organizing batik festivals and participating in promotion

[65] Initially the main person was Afif Syakur, a Pekalongan-born third-generation batik entrepreneur and batik designer who resides in Yogyakarta.

[66] Asephi has existed since the Soeharto era, when it had a strong affiliation with Golkar (MacIntyre 1991:10). Following the political changes in 1998, the former chairman resigned, and the Pekalongan office was vacant for two years.

trips abroad, the board members of PPBP and Asephi joined several other batik networks in Java; the aim of these networks it to protect and preserve traditional hand-printed batik, despite the overwhelming availability of machine-printed batik products. Two incidents were important in creating a movement to campaign for international recognition of batik as part of Indonesia's cultural heritage.

In 2007, Malaysia patented a batik pattern as its national heritage and included it in its promotional tourism advertising that was broadcast worldwide. This claim sparked a diplomatic debate between Indonesia and Malaysia and became a cause for concern among the Indonesian batik businessmen. A second incident that triggered the movement for international recognition followed exposure in 2008 of the pollution of Pekalongan's rivers due to waste from batik production. The story was broadcast by the News Service 68 H in Jakarta and picked up by Radio Netherlands. The news item did not specify that most of the pollution was caused by the big factories which use a large amount of chemicals. The producers of traditional batik used the publicity as an opportunity to explain to the public that the traditional batik-making process, by comparison, produces less pollution.

Both incidents led the board members of PPBP and Asephi to decide that they had to actively lobby to promote batik as part of Indonesia's national heritage. In order to prevent further claims on batik patents by other countries and to counteract the allegations of pollution, these groups, together with other organizations, reactivated and expanded batik-production centres and networks all over Java, with the Batik Foundation in Jakarta as the main hub. They also organized batik festivals sponsored by local governments in Solo, Semarang, Yogyakarta, and Jember in East Java. Further, they managed to introduce batik making as a subject in the local curriculum of elementary schools in Central Java[67]. The popularity of batik was further supported by the fact that several young Indonesian fashion designers, such as Eduard Hutabarat, started to use innovative batik patterns and designs for their fashion garments. All of this has resulted in the revival of batik products in Indonesia since 2007; indeed, batik has regained popularity among all classes

[67]The requirement for civil servants to wear uniforms made of batik twice-weekly in government offices has already been a practice since the late 1970s. This was a decision first taken by the governor of Jakarta Ali Sadikin who served Jakarta between 1969 and 1977.

in society.

In 2008, these batik lobby groups, led and organized by Kadin Foundation with Pak Cip in charge of coordination, submitted a proposal to UNESCO to have Indonesian batik recognized as a World Cultural Heritage. This application was supported by a large number of groups among the batik community in Indonesia: batik producers, toolmakers, pattern drawers, collectors, designers, various batik associations in Pekalongan and beyond, and government officials under the coordination of the Indonesian Chamber of Commerce. On 2 October 2009, UNESCO announced its decision to include Indonesian batik in the Representative List of the Intangible Cultural Heritage of Humanity. This further increased the popularity of batik across the country. The nomination form for the UNESCO list defines batik as:

> Traditional handcrafted textile rich in intangible cultural values, passed down for generations in Java and elsewhere since early 19th Century […] made by applying dots and lines of hot wax to cloth using a copper pen-like instrument (*canthing tulis*), or copper stamps (*canthing cap*), as a resist to hand-dyeing later removed by boiling and/or scraping, repeating the process for each colour.[68]

The groups that promote batik as part of Indonesia's cultural heritage emphasize the hand printed process by the traditional technique, to differentiate it from the stencilled or machine printed batik. In my view, the discourse of 'preserving batik as a national cultural heritage' came also in response to the liberalization policies in the batik or textile sector, initiated by the Indonesian government in the 1970s, which has marginalized the producers of traditional/manual batik. During the early days of these changes, traditional batik entrepreneurs lobbied with the government to protect their manually-printed batik by not allowing the use of the word 'batik' on labels of machine-printed batiks; they demanded instead the wording 'textile with batik motifs.' Although the government sent out instructions to this effect at that time, implementation failed, mainly because consumers were more

[68]From the document "Nomination for inscription on the Representative List in 2009,Reference No. 00170 ( http://www.unesco.org/culture/ich/index.php?RL=00170,accessed 21 June 2012).

concerned about the price of the cloth, rather than whether it was machine-printed or drawn manually (batik *tulis*). Three decades later, traditional batik entrepreneurs are attempting to employ a different strategy using a discourse of Indonesian identity and cultural heritage.

Those lobbying to promote batik as part of Indonesia's cultural heritage on the UNESCO list, mostly traditional batik producers, took every chance at preparatory meetings in Pekalongan and Jakarta to attack producers of modern printed batik. I attended several of these meetings, one in Jakarta (March 2008) and three in Pekalongan (April, June and October 2008). At every meeting, at least one traditional batik producer would stand up to complain, accusing modern batik producers of betraying Indonesian culture. When the issue of waste management in the batik industry was raised, they attacked the use of modern techniques for being environmentally unfriendly and polluting. Some participants even suggested that they should demand that the government stops the production of machine printed batik and punishes those who jeopardize the preservation of Indonesia's cultural heritage.

The move to promote batik as part of 'preserving Indonesia's cultural heritage' is also a new strategy in the long battle to promote indigenous or pribumi entrepreneurship in Indonesia. Although not explicitly used during the lobbying campaigns, the ethnic factor was certainly present in everyday\ discourse in Pekalongan on the promotion of batik as cultural heritage. The traditional batik producers, who are mostly pribumi entrepreneurs, have always emphasized that the printed-batik products, which have caused the decline of their industry, are manufactured by Chinese-Indonesian businessmen. Although this is generally the case, there are also Chinese-Indonesian producers of manual printed batik. Moreover, machine-printed batik includes 'stencilled batik', a technique that is used also by pribumi entrepreneurs. Indeed, the two largest batik-printing factories in Pekalongan belong to businessmen of Chinese-Indonesian origin, namely Unggul Jaya and Lojitek/Lokatex. The largest batik printing factory in the early 1970s, Rimbun Jay, was also owned by a Chinese-Indonesian entrepreneur. However, in the southern part of Pekalongan several batik-printing factories are owned by pribumi entrepreneurs; most of these factories are large-scale in terms of capital input. And it must be noted that one of the batik motifs, for which Pekalongan

is so famous, was created by a businessman of Chinese descent, Oey Soe Tjoen (Elliot 2004: 118). He and several Chinese-Indonesian entrepreneurs still produce traditional batik, and they have faced similar financial problems as those encountered by the producers of Javanese-Muslim origin. Thus, the Pekalongan batik industry cannot be described in such simple terms as 'pribumi entrepreneurs who run manual, small-scale batik production and are marginal' versus 'Chinese Indonesians who own modern and large-scale batik production and are rich.' However, this is the discourse that emerged in 2008 as part of a strategy to promote batik as a signifier of Indonesian cultural identity.

Behind the discourse of cultural preservation lies the story of business competition between producers using manual techniques and those using modern ones, and this tension also has an ethnic dimension. Despite the role of many Chinese Indonesians in traditional manual batik production, in the public mind, Chinese Indonesians are seen as the big capitalists who have destroyed Indonesia's authentic cultural heritage. The cause of the problem is deemed to be different cultural backgrounds—pribumi versus Chinese Indonesians. These attitudes towards Chinese Indonesians persist, this time 'packaged' as a group that threatens Indonesian cultural heritage.

## Conclusion

This chapter has attempted to show how the traditional batik industry is dealing with the liberalization of the sector as a consequence of new political realities in Indonesia. At the heart of the strategies of the batik entrepreneurs to cope with the economic reforms is a political strategy, a strategy which has the feature of informality.

Politics played an important role in the attempt to deal with the loss of protection. This accounts for those who tried to survive and maintain in batik production and for those who diversified into non-batik business activities. Both those involved in credit union JASA and those involved in the reinvention of batik as a cultural identity marker, exploit nationalism in their discourse to protect local business interests, against what they called liberalization and ethnic outsiders. Some former successful elite batik entrepreneurs, whose recognised expertise in traditional batik making is needed to promote batik as national heritage, have been able to develop new political connections and contacts. At the same time, the revival of batik as cultural heritage is also used by politicians to further political popularity and political careers.

Underlying all the strategies are ethnic prejudices, directed especially at Chinese Indonesian entrepreneurs. The resurgence in the popularity of batik as a cultural heritage has given further articulation to the long-held prejudices against Chinese Indonesians.

Another point that emerges in this chapter relates to 'the actual practices of the state' in the batik business. The end of state protection for batik entrepreneurs means that entrepreneurs have to compete openly in the market in order to survive. The case of the batik museum is a good example of the actual practice of state-business interaction which comes about in the batik sector. The batik case shows that the state is neither a solid entity nor a unified one. This reminds us of what Barker and Van Klinken (2009: 7) have suggested: "State organizations do not exist by themselves, but are filled out by elites who themselves are also part of society. These elites deploy various kinds of negotiated social capital beyond sheer bureaucratic muscle."

# Chapter 6

# CHAPTER 6
# FROM STATE REGULATIONS TO POLITICAL AND SOCIETAL INVOLVEMENT: THE CASE OF THE CONSTRUCTION SECTOR

This chapter explores the changing relationship between business and politics in the construction sector in Pekalongan. The first section describes the era of state regulations, when business opportunities in the construction sector depended to a large extent on links with the bureaucracy and the Golkar party at the local and national level. In sections two to five, I discuss the various reactions of the businessmen in Pekalongan to the liberalization measures introduced in the construction section since the mid-2000s. Section two focuses on those businessmen who were either unable to cope with the new situation or reacted by mainly introducing technical improvements in their management strategies. In section three, I describe how a number of contractors redefined their business strategies by intensifying their links with politicians informally and sometimes by entering into politics themselves. As I will show in section four, entrepreneurs in Pekalongan also reacted to the changes in the construction sector by making use of their business organizations to protect their interests against competition from outsiders. In section five, I show how some building contractors in Pekalongan got involved in societal activities and thereby benefited from new business opportunities in the educational sector.

## 1. Close links with the bureaucracy and Golkar

As mentioned in Chapter Three, the construction sector has been a state regulated sector for a long time, and one in which close contacts with the state bureaucracy have been a vital part of business strategies. To a large extent, contractors depended on the availability of government projects. This dependency on the state for business opportunities was at its height during the Soeharto regime, when the regime used construction of infrastructural works as part of its policy to provide employment for the poor and, thereby, enhance its political legitimacy. During those days, close contacts especially with the state bureaucracy at the national level were important to acquire projects in the construction sector. The distribution of the projects involved was highly regulated and resulted in large-scale corruption practices (World Bank 2001: 19; Robison 1986: 227).

This dependency on the state bureaucracy at the national level also applied to the businessmen in Pekalongan who had to establish close links with members of the ruling Golkar party, the military and the corporatist business association Gapensi in order to be able to get state projects for their construction companies. Kickbacks and bribery were a common part of business strategies. These forms of systematic corruption often amounted to 10-15% of the total project budget (Djojosoekarto and Purwanto 2008: 37-39). Such practices had become so common in the construction business that it was generally known that "construction is a world full of sin," as a former contractor from Pekalongan once described it to me.

Many contractors in Pekalongan benefited from this system of state regulation and were able to acquire regular construction projects. Pak Eki, pseudonym, (born 1965), who started his construction enterprise CV Mutiara in the mid-1980s, recalled with nostalgia the way in which government regulations in the construction sector had benefitted small contractors like him.

> There was always a project allocated to us. Sometimes the number of projects even exceeded the number of enterprises in Pekalongan. If there were, for instance, ten projects but only seven companies applied for them, the following system was used by the bureaucrats. After each of us had been allocated

> one project we conducted a lottery, and each of the three names that appeared got one of the three remaining projects. Of course, in order to do so, we had to pay the bureaucrats in advance. In that way I was able to get several projects per year and could live comfortably from those. (Interview Mr Eki, 10 September 2008).

Many of the successful businessmen in the construction sector of Pekalongan in the 1980s and 1990s used to have close links with the bureaucracy and the Golkar party, as in the case of Wabi Baisya (circa 1940-1995), a businessman of Indonesian-Arab background. His company CV Bersatu (United Enterprise), established in the late 1960s, is generally considered to be the first construction firm of Pekalongan.

> Wabi Baisya was known as one of the richest men in Pekalongan. His wealth was based on his construction enterprise, along with his activities in the agricultural sector. Over the years, his company acquired a large number of projects all over Central Java, among them projects for provincial road construction (accessed through the Ministry of Public Works), for the construction of schools (accessed through the Ministry of Education), and for the provision of furniture for government offices in all thirty-five districts of Central Java. During those years, the company made fortunes, as a former staff accountant recalled: "My boss frequently came to our office with large amounts of cash in a big bag. He asked us to count it. At that time, all transactions were in cash, so we had to count it manually. This did not happen only once—whenever he returned to Pekalongan, he always came to the office with a big bag full of money. We were really a big enterprise at that time. My boss was rarely in Pekalongan, because he had to visit all our projects in Central Java. Even if he happened to be in Pekalongan, he rarely slept at home but used to stay in a hotel. He asked his family to join him in the hotel. I think he stayed in the hotel because he had so much money that he did not know how to spend it." (Interview Ms Mui, 10 June 2008). A former neighbour of Baisya vividly remembered the enormous wealth Baisya used to have: "He used to take us to his farm in southern Pekalongan, where he entertained us lavishly. He even used to give us pocket money during our stay there." (Interview Mr Supra 4 March 2008).

> Baisya's business success in the construction sector was closely related to his political connections within the Golkar party, at the local, regional and national levels. He not only financed Golkar's activities in Pekalongan in the 1980s but was also in close contact with high-ranking party members of Golkar in Semarang and Jakarta. Baisya's former assistant at CV Bersatu, Mr Alti (born in 1955), recalled Baisya's proximity to Golkar leaders in Jakarta: "At that time, it was more important to be close to political figures in Semarang and Jakarta than to political figures in Pekalongan". He remembered how he had to send boxes of oranges from Baisya's farm in Pekalongan to top Golkar officials in Jakarta. One time, Baisya even gave a two-meter high marble horse statue to a Golkar leader in Jakarta: "I remember how Pak Baisya and his wife had a fight over where to store the statue in their house. His wife thought that the statue was ugly, but Pak Baisya knew that the Golkar leader loved statues and horses and wanted to please him with this gift." (Interview Mr Alti, 10 September 2008).

Another example of a successful contractor with close political contacts in the 1980s is Kamaludin Bahir, director of the Pekalongan-based construction firm Ikamuda, already introduced in Chapter Five. He belongs to an older batik family in Pekalongan. After the decline in batik production in the 1970s, Kamaluddin established the holding company Ikamuda in 1981, with which he expanded his business activities into prawn cultivation, poultry husbandry, print media, rattan furniture production and construction. The construction activities in the holding were very successful, mainly due to his close connections to politics at the national level, especially to the Golkar party. Kamaluddin Bachir is also a brother of Soetrisno Bachir, former national chairman of the National Mandate Party (PAN). Through the Golkar contacts of his friend Wabi Baisya, Kamaluddin's company, Ikamuda, was able to acquire its first large real estate project in Pekalongan, the construction of a residential complex, Bina Griya, located in the southern part of the city. Baisya was also instrumental in helping him get credit for this project from the National Saving Bank (BTN, Bank Tabungan Negara). Following the construction of Bina Griya, the business activities of Ikamuda expanded beyond Pekalongan to Central Java, Lampung (Sumatera) and Jakarta. At the end of the 1980s, early 1990s, Ikamuda even went international when it established business units in

Singapore (1989) and Seattle, USA (1990).

> The Golkar connection that Kamaluddin managed to access had to be returned with political favours. Ever since Soeharto assumed power in 1966, Golkar had never won the elections in Pekalongan—in 1971, 1977 and 1982 the elections were won by the Islamic party (PPP). However, in 1987, largely due to Kamaluddin's strong support and political strategies, Golkar was able to win for the first time. He promised the Pekalongan constituency that, despite the crisis in the batik sector, there would be sufficient jobs available in Pekalongan, if they would vote Golkar to power. Moreover, he suggested to Pekalongan voters that they need to vote for Golkar only at the second regional level (*Daerah Tingkat II*, DATI II, which is now the city/district level) and could still vote for their Islamic party at the first regional level (*Daerah Tingkat I*, DATI I, provincial level) and at the national level. Since then, Kamaluddin is remembered as the architect of Golkar's first victory in Pekalongan, often referred to as the 'blue route project', named after the colour of the ballot paper used for the election at the second regional level in 1987.

The cases of Wabi Baisya and Kamaluddin show how political connections, primarily with politicians and administrators of the Golkar ruling party, were of key importance to economic success during the highly-regulated construction world in the 1980s and 1990s, including at the level of a provincial town such as Pekalongan. However, this political-business configuration was soon to change.

## 2. Frustration and technical solutions

In the early 2000s, shortly after the fall of the Soeharto regime, the regulation of the construction sector ended: the construction market was liberalized and state protection was abolished. This reform of the construction sector was part of more general pressure from international organizations, such as the World Bank and the International Monetary Fund (IMF). In return for financial assistance during the severe economic crisis that began in 1997, these organizations pressured Indonesia to promote 'good governance' in the form of open competition, transparency and accountability. The construction

industry was one of the main targets for deregulation, because government funds for this sector allegedly had been used for kickbacks to administrators and politicians. Considerable funds were involved: the growth in total investment in infrastructural projects, from 5-6% of GDP before the 1998 crisis to 7.5% by 2006, resulted in a total amount of US$ 24 billion per annum available for construction. Corrupt practices in relation to these funds, even if less than 5% amount would result in a substantial loss (Van Klinken and Aspinall 2011: 143). To overcome the loss of funds in this sector, the World Bank promoted deregulation with the aim of helping to curtail corruption and thus save public funds (World Bank 2001: 3).

The solution proposed by the World Bank and IMF was to implement an open tender system for the procurement of public projects, which would create open competition among the actors involved and, thereby, raise productivity and achieve better end results for lower costs. From the beginning, the World Bank realized that this policy of liberalization would be at the expense of small- and medium-scale businesses, as it would open the construction sector to participation by non-local actors. As the Bank wrote in one of its documents:

> Government has traditionally viewed small business as an economically weak group. But guaranteeing government contracts to SMEs (Small and Medium Enterprises), without opening them to competition from firms outside their geographical area and from larger firms, makes them grow complacent, and undermines their competitive ability. [……] Government policy should encourage entrepreneurs to undertake risk and innovation in response to perceived market opportunities. Market oriented enterprises are more flexible and responsive to market signals, and they have higher productivity (World Bank 2001: 24).

In response to the proposals by the World Bank and IMF, various reforms were implemented by the Indonesian government, such as Bill No. 18/1999 concerning the construction sector and its detailed regulations set out in Presidential Decree 80/2003 on 'Guidelines for the Construction Sector.' The political changes and the introduction of the tender system resulted in uncertainty for established contractors. In the political field, they now had to

deal with more and different actors to get construction projects, instead of through their personal contacts as in the past. For contractors there was no longer just one party they had to deal with but a plethora of new parties. They have had to form new alliances with a great variety of new political actors. Two of them expressed their frustrations to me about these changes: Surya (born 1947) established his construction enterprise in 1987 after graduating from Gadjah Mada University, Yogyakarta, majoring in civil engineering; and Jati (born 1974) who started his business in 1994 as an engineering graduate from the university in Semarang.

> I had an appointment with them at the tennis court behind the office of Public Works Office in Pekalongan. When I arrived they had just ended their game and were having a drink on the terrace, watching a doubles match between four bureaucrats from the Pekalongan Public Works office next door. Every now and then, Surya and Jati commented on the match and had brief conversations with the bureaucrats during the breaks. From the jokes they shared I could sense that they knew the government officials quite well. They told me that they had played tennis for years to keep fit, but also as a strategy to maintain good relations with Pekalongan bureaucrats who often play on the same court. Jati was quite open about his motives, "When you are competing for business, good relations with those who make the decisions help to ensure that you will be given priority."

> Surya and Jati explained the difficulties they have with the new tender system, especially the fact that it has opened the sector to outsiders and new players: "In the past, you only had to be close to the administrators of the bureaucracy to keep your business running, as those contacts would provide you with a steady supply of projects. Things are different now. It is not enough just to have good relations with them. You also need to be close to local politicians, since they are the ones who allocate projects, especially *dewan* (members of the DPRD)." When I asked them whether they tried to become close to members of parliament, Surya responded: "Which politicians should we approach? There are thirty of them and it is difficult to keep up with all of them. Formerly, if you knew a high-level administrator, you did not have to deal with the others. One

> was enough. We used to get many projects then. Now we have to deal with so many people and they (politicians) change so often. Today one particular faction is in power, tomorrow or next week another one." Showing his frustration, Jati added: "Who do they (politicians) think they are? They are new kids on the block who try to make money from us businessmen. I'd rather stay home and sleep than try to do business when it is not certain whether we will get the project or not." (Interview, 10 November 2008).

Jati and Surya told me that they had been ready for the new open tender system, which was introduced in Pekalongan in 2006 and nationwide in 2007. They also had plans to introduce an Internet-based procurement system (e-procurement). "We have trained staff who can prepare tender documents and who can download the application." Businessmen, like Jati and Surya, who own medium- and large-scale enterprises are responding to the recent changes by trying to introduce technological improvements in their enterprises and upgrading the skills of their staff in order to face the new challenges.

However, most of the smaller entrepreneurs feel uncertain about this new situation and thought they could manage with the help of an owner of one of the private Internet cafés in Pekalongan. One of them told me,

> Our projects are unpredictable, and we don't have enough capital to upgrade our enterprise. I don't really know how to submit proposals now. As long as there are Internet cafés and computer rental is available in Pekalongan, I can maybe ask the staff there to help with this on-line system. They know me already for a long time. I don't know how to access the Internet, but I hope the Internet guy will help me out. (Interview Mr Hasmi, 15 May 2008)

Small entrepreneurs are the largest population of contractors in Pekalongan, as I have indicated in Chapter Three. During my research, I used to meet them in their own houses where they had their offices, on the tennis field or in a restaurant or café. In fact, many smaller entrepreneurs do not even have an office at home, but operate from their cars. Only a few medium- and large-scale businessmen in the construction sector have an office, separate

from their house, with regular staff (such as Jati and Surya). But even some of these larger-scale entrepreneurs face problems with the new system.

> Budi Waluyo (born 1953) is the owner of a medium-scale construction enterprise. I entered his house through the side door to join him on the veranda of his house and I noticed that there was no plate with his company name. When I asked him about the location of his office, he replied: "A medium- scale businessman like me cannot afford to have a separate office. Only large-scale companies can afford that. I employ two staff members, one on a monthly salary, the other is on contract. Compared to most contractors in Pekalongan, I am doing ok, but I cannot afford to employ two staff members on a monthly basis."
>
> Budi Waluyo told me that he needed to upgrade the facilities of his enterprise in order to be able to participate in the electronic procurement system: "I have no clue how to use the Internet, how to log in, how to register, and all of that. My staff has to learn it quickly. I have no option, because the new system will be based on the Internet. When that will be in place, I will only be able to send my applications through the website of the office of Public Works. This means I have to buy a computer with access to the Internet. The computer we now have is only used for typing. When we tried to connect it to the Internet, it was so slow that we could not download the documents." (Interview 23 November 2008).

## 3. Close interaction with local politics

Generally, there are two ways in which businessmen in the construction sector have made use of politicians and administrators/bureaucrats. First, by latching onto patrons within the Pekalongan council or the district administration so they can get backdoor access to projects; and second, by always 'refreshing' their connection to political actors at least once every five years during elections. Contractors must always navigate their way in the political constellation, making sure they cover as many parties as possible, as a backup if things change.

Nevertheless, the use of these two strategies must always be accompanied by a formal application process, in line with the regulations for project

allocation. Everybody must follow the formal steps for gaining projects, despite the fact that the results have been pre-determined. The informal process goes hand in hand with the formal one. Projects are usually announced six months to one year before the start of the tender process. All contractors must follow the formal process: submitting their proposals on time, then waiting for the formal selection by the tender committee. Without following this formal stage, there will be no project. Besides the formal process, there are informal ways to get access to the projects. In other words, there is a co-existence between the formal and the informal process, or between 'front' and 'backdoor' channels, to use Goffman's (1959) terms. To influence the decision making process, good connections and political backup are needed. The need to find political backup is shown by Fari's experience:

> Fari (born 1968) is a contractor and the owner of the construction company C.V. Siyo Putra Perkasa, established in 2002, a few years after Reformasi and the introduction of decentralization. His good friend, Sami (born in 1973), a politician from PKB (National Awakening Party) at that time, encouraged Fari to establish a construction firm and promised to help him find projects. "Without Sami's support, I would never have dared to have my own company. How would I get projects if I knew no one in the government or the local council? You should know someone in the council to have this kind of business," he said in an interview on 14 August 2008.
>
> Fari and Sami have been good friends since high school, when they were members of "Garda Bangsa", a youth wing organization of the Pekalongan branch of Nahdlatul Ulama (the largest Muslim organization in Indonesia).
>
> Later Sami became the speaker of the Pekalongan local council for the 2004-2009 period, and Fari's business climbed along with Sami's career. Fari remarked, "Ever since Sami became the council speaker, I got more projects, at least four per year. It was easy for me to have projects totalling IDR 1 billion (US$100,000)." Fari's enterprise is small-scale, thus according to regulations, his enterprise is entitled to projects valued at a maximum of IDR 200 million (US$20,000) per project. As his total projects amounted to US$100,000, it means he got more

than his permitted share of projects a year.

Sami did not run for the local council in 2009, prompting Fami to forge a new network. A year before the 2009 election, he started scouting for politicians to support and then to latch onto. One day I was with him as he did extensive monitoring of the candidates on the list, after having made myriad phone calls. He checked and double-checked constantly; his phone always rang whenever I was with him during my fieldwork. He would cross out a name and insert a new one; other times he reinserted the name he had crossed out and omitted other names. It felt to me like I was watching the rising and falling of shares on the stock market, as I saw it on TV: hunting for politicians who had a good chance of winning the seat in the coming election involved close monitoring and quick decision making. Finally he made a shortlist of six politicians from five different political parties (Golkar, PDI-P, PPP, PKNU and PKB) and decided to invest in them. One of the politicians in whom Fari invested was Bowo Leksono from the Golkar party, who later became Fami's main patron in the Pekalongan council in the period 2009-2014. Fami financed his campaign activities (as well as the other candidates he selected), such as paying for campaign materials, in particular calendars containing the candidates' names and parties, the most common campaign medium in Pekalongan at that time. He also supplied T-shirts with the candidates' names printed on them. For each of them he prepared IDR 5 million (US$500), which means he spent in total IDR 30 million (US$3,000). His painstaking scouting and campaign support bore fruit in the end: five of the six made it to the council. "So, from now until 2014 (the period of local council membership), I am safe; at least I'll get five projects from each," he confidently asserted.

I asked him why he selected so many parties, not just PKB or PPP, parties with Nahdlatul Ulama connections and with whom he is familiar. His answer was pragmatic: "You never know what will happen in politics. Although my heart is with NU (which means he might be expected to align himself with only NU-related parties—PKB, PPP and PKNU), I am doing business here, and it is not good to cling to one party only. Businesspeople have to be flexible."

**Picture 6.1** Contractor running for member of Pekalongan local parliament (2009 election campaign)

Photo by author

Apart from being involved in politics indirectly, another way to get involved in local politics is by becoming a politician yourself. The limitation of Fari's strategy is that he has to take care of many political actors. This is different if the contractors promote themselves and become politicians. In the 2009 election, at least eight candidates had a contractor background, and two succeeded in getting a seat. In the previous term of 2004 to 2009, five Pekalongan councillors were also contractors (one sixth of the total number of councillors). One example of a contractor trying to become a counsellor for the sake of his business is Mr. Joko.

> Joko (born 1978) is a contractor who owns two enterprises in Pekalongan, both established around 2003. He has been an active member of the National Mandate Party (PAN) since 1999. Before he established his own enterprise, Joko worked for three years for Vonal (born 1969), the owner of a construction firm, where he learned the tricks of the trade in the world of construction. Vonal was a successful construction

entrepreneur at that time and he has always been in politics since he started his business. He is Joko's political and business mentor. Joko said he owed the success of his construction business to Vonal's activities in PAN. Vonal channeled projects to Joko's company, when his company got too many projects. Joko conducted the project on behalf of Vonal's company. This is possible as long as the reports are submitted under the name of Vonal's company. When Joko started to get smart in accessing and obtaining projects, he also channeled some of his projects to Vonal's company, if the latter had fewer projects.

When I met Joko for the first time, I was astonished that he was so open and honest about his ambition in business and politics. "This is my plan: in 2009, I want to be a member of Pekalongan council, in particular Commission III, because it's the major source of projects. In 2014, I will re-run for a political position for the second time, and this time I should be a chair of Commission III overseeing education issues. I will be the one who decides project allocations in the commission. Of course I will dominate the project distribution. In 2020, I will run for the office of mayor, then I'll have all projects in my hand."

The reason he entered politics in 2009 was to relieve himself of the 'participation fee', a form of gratuity for the local council members who had helped him secure projects. He had calculated how much money he could save if he became a politician himself. He paid between IDR 200-500 thousand (between US$20-50) per project, and usually he had at least six projects, which means he had to pay bribes of US$ 120. This is only one small component of the 'thank you fee' for one Pekalongan council member. Sometimes he has to pay fees to the head of the district administrator's office, involving similar amounts of money. Then he has to pay the tender committee. "There are countless fees," Joko complained. Although there is no standard amount to be paid, and it is 'voluntary,' there is still a range that is appropriate. In total, the fees account for around 15-20% of the total budget, per project.

Joko had to balance this against the cost of running as a candidate for the local council. One of the requirements to be eligible for a seat on a local council is that candidates must get a minimum number of votes. This is calculated by dividing the

total number of individuals who can vote in one voting area by the total number of seats allocated for that area.[69] This minimum number is a standard that candidates use to calculate their budgets. In Joko's electorate in East Pekalongan he would need at least 1,500 votes to get a seat on the local council. A candidate spends on average about IDR 20,000 to 50,000 (US$2 to 5) per voter: this meant Johan needed at least US$3,000-7,500 for voters only. This is a lot of money for a provincial town small-scale businessman. Johan said he would manage to get this back once he became a local councillor because he was sure he would secure projects for himself, and take rent from projects he passed on to other contractors. He calculated that if every year he could secure ten projects for his own enterprises, and pass on another ten to other contractors, receiving a fee of around 5% per project, in five years he assured me that he would get his campaign money back.

Unfortunately for him, Johan did not make it to the local council; he lost his seat to Akbar, who won by a thin margin. Some voters I met said Johan was too young and he did not impress them, although he gave lots of money for vote buying. Undaunted by his unsuccessful political bid and realizing the importance of politics for his business, Johan told me after the election that he would run again in 2014.

## 4. Local interests and identity politics

Jakarta introduced the open tender system nationwide in 2007 as part of the governance reform in the construction sector, set in Bill 18/1999. This system allows construction enterprises from all over Indonesia to compete openly in the procurement of tenders in any given city among the 444 city/district administrations in the archipelago[70]. Article 11 of Presidential Decree 14A/1980 on privilege for contractors who reside in their own jurisdictions was abolished. Projects are now open to all bidders, regardless of the value

[69] Based on Law No. 10/2008 on National, Local, and National Regional Representative Election,

[70] In reality, it is troublesome for enterprises based in Papua, for instance, to tender for projects in Pekalongan, because it will cost them a lot to transport their heavy instruments to Java. So, in fact, open tender is quite limited, due to geographical factors. Nonetheless, it is possible for neighboring cities to participate in an open bid in a nearby town, for instance contractors from Batangfrom Banjarnegara and from Wonosobo made bids in a project in Pekalongan.

of the projects. Previously, construction enterprises were allowed to bid for projects based on the scale of their company (small, medium and high). As a result medium- and large-scale enterprises could not compete for projects reserved for small-scale enterprises. One of the impacts of the liberalization policy has therefore been the marginalization of small-scale business actors who cannot compete in the new open market system.

This section shows how the contractors in Pekalongan reacted to these liberalization policies by organizing themselves in order to keep outsiders out of the tender system. As I have described in Chapter Three, after the fall of Soeharto, there was a lot of enthusiasm at the local level to form organizations and associations, including in the construction sector. More than five new business associations were established in Pekalongan, as branches of national headquarters in Jakarta, to contest the dominant role of Gapensi, associated with the former ruling party Golkar.[71]

However, it soon became clear to the local contractors that simply forming associations, to combat the domination of Gapensi, did not guarantee access to projects under the new system. Indeed, local Gapensi members fared no better than others. During the trial phase of the open-tender system, more projects were awarded to contractors from outside Pekalongan than to contractors from Pekalongan itself. Because of this, all Pekalongan contractors and the members of the various business associations in Pekalongan agreed that the decrease in the number of projects given to Pekalongan contractors was a threat for the whole community, regardless of which association they belonged to.

To stop the increasing domination of contractors from outside Pekalongan, the businessmen in Pekalongan realized that they needed to consolidate themselves, although they did this informally. One of the chairpersons of Gapensi, Mr Hakim, invited members from other associations to meet together to find ways to settle their concerns (Interview 10 September 2008). I confirmed this with the head of Aksindo, Mr Vonal in an interview on 13 September 2008. Since then they have been meeting together whenever necessary, regardless of which association they belong to. The collective strategy to deal with the 'threat' from outside emphasizes local identity. It

[71] The most important are Gapeknas, Gapeksindo, Gabpeksindo, and Aksindo.

aims to keep contractors from outside Pekalongan out of the bidding process, by whatever means necessary, as a senior figure in Gapensi told me.

> Trimo (born 1958), the most senior figure of Gapensi, told me that at first they did not know how to stop outsiders from participating in the open tender system. Initially, they tried to have informal agreements with contractor associations in neighbouring areas of Pekalongan: the contractors from those areas would not participate in the tenders in Pekalongan, and vice versa. "We don't disturb them and they don't disturb us. And we are all happy." But this was not effective enough to stop participants from outside Pekalongan coming in.
>
> Then they sought help from their 'friends', who are actually *preman* or thugs, mostly members of Baurekso, a group registered with the office of Welfare and Public Order in Pekalongan as a social youth organization[72]. The *preman* were used to send away participants from outside Pekalongan.
>
> Another association member, Mr Hasmi, told me, "We know who's who, in our construction world, and who is coming from outside. We never disturb outsiders when they are doing their [construction] work. We hope they would do the same to us (Interview 15 July 2008). But, if under the new system firms from outside Pekalongan take projects in Pekalongan that should have been given to us, then we cannot guarantee that their projects here will proceed smoothly. We will not guarantee their safety here. We will not be responsible if our thug friends do something to their construction equipment, if they are parked in a public space. I cannot blame my *preman* friends if they do such things." H suggested that Pekalongan contractors would employ violence in response to the deregulation. The Gapensi chairman approved: "We just want to keep what is ours and we don't ask for more," he said. "Protecting ourselves is perhaps the only thing we can do. We have to attack them first, before they attack us," said Hasmi. They believed their offensive strategy was necessary, or else they would not get any projects at all.

[72] Bahurekso, or sometimes Baurekso, according to a local legend, is the founder of Pekalongan.

> Both Hasmi and the senior figure of Gapensi said that the *preman* distinguished between Pekalongan contractors and outsiders by, among other ways, the car registration plate number[73]. Helmy, another contractor, told me that the 'friends' brought sharp weapons to threaten, if necessary, outside contractors who showed any resistance to withdrawing from the tender process. "But it hardly ever came to violence," he said in an interview, 19 September 2008.

Local contractors also tried to get politicians in the local parliament (DPRD) to support their efforts to exclude outsiders. The contractors set up separate and secret meetings, inviting local government officials and local councillors to share with them their concerns. The contractors argued that the Pekalongan city budget should serve the interests of Pekalongan people and be used for the betterment of local people. For them, it meant projects should be for contractors from Pekalongan. Members of the local council and the district administrator agreed to support the associations in their efforts. They informally agreed with the use of *preman*. The official public discourse became, as stated by the Pekalongan council speaker, "Pekalongan money for Pekalongan people."

The Pekalongan council speaker, heads of city offices, members of the tender committee, heads of associations and the contractors all spoke to me about this strategy of using threats towards outside contractors in an unapologetic and candid manner, often without my asking. They did not really bother to conceal it from me, a researcher from outside Pekalongan. My first assumption was that their tactics were not exactly a secret, because it seems that everyone knew about it. Gapensi secretary, Mr. Hakim (born 1955), agreed that their tactics to keep out outsiders were against the law. When I asked him what would happen if Jakarta or the monitoring body found out, he did not reply directly to my question. But I could tell from his expression that it would be a problem. Nonetheless, all the decisions they made in meetings were not documented, or at least the documents were not publicly available.

The whole thing was done in a non-public, hidden way, but it had to be

[73] Car registration numbers begin with a letter which identifies right away which area a car comes from. Pekalongan registration numbers start with "G" and end with "A".

known to be frightening. No one would tell me when and where the meetings took place and who attended; if I showed too much interest in knowing more details, it was made clear to me that this information was secret and I would not be told. Yet they are dealing in this way with a matter that should be public and transparent—the open tender system, which also involves public money.

The open tender policy may be well-intended, but it is delivered without consultation or preparation of the local population. Therefore, local contractors deem it top-down and forced on them by foreign donor agencies. They believe they cannot compete in an open system, and thus the deregulation has prompted an us-against-them discourse.

## 5. Involvement in civil society

Contractors also involve themselves in civil society groups to help them get more construction projects. New opportunities have opened up with the liberalization policy and democratization, and they try to benefit from these. By involving people in public spending, the World Bank believed that all kind of bad practices, such as budget mark-up and rent-seeking, would be eradicated and the quality of goods/procurement would improve. The logic behind it is that, if the people who propose projects carry them out, there will be a strong sense of ownership and they would never corrupt the resources.

In the education sector, which intersects with the construction sector, participation is through the School Committee (*Komite Sekolah*). This committee is a recently institutionalized unit attached to the school management system in Indonesia in 2002. The committee has general oversight of school activities in areas outside curricula: maintaining school facilities and procurement activities. Membership of the committee consists of school principals, representatives of parents, and society members who have a concern for educational issues. These are all set in Law 20/2003 on the Education System, Presidential Regulation of 80/2003, and the Ministry of Education Decree 004/K/2004. Before school committees were introduced, school principals supervised all activities at schools. Now only school committees can send proposals for the building of facilities to the office of education; school principals or contractors cannot make such proposals alone.

The school committee began to function between 2003 and 2004. However,

it gained in importance only after the launching of the Special Allocation Fund, DAK, another subsidy fund from the national government to finance the routine or overhead expenses of local government priorities, including education. For education, the funding is for building school facilities, such as classrooms, basketball fields, science laboratories and libraries, as well as for procuring furniture, air conditioning units, multimedia equipment, computers, etc. When the school committees were first installed, no contractors thought about school committees as a way to access projects. Contractors, who were members of school committees, were there because they were parents or out of community spirit. As mentioned in Chapter Three, initially, the projects under the DAK scheme were considered 'penny' projects, due to their small scale, especially when compared with projects sourced from the Pekalongan local budget (APBD).

Out of the twenty-five contractors I interviewed in Pekalongan, only one-fifth were members of school committees and used the committee to access projects. Enterprises established after 1997—in Chapter Three I categorized them as the 'junior' generation—have been more active in using social and political connections as business instruments; they were the most active contractors on school committees during my field research in 2008. Those who got in early now have an advantage over contractors who have realised later that there is money to be made from school projects. When the Pekalongan local budget declined, getting projects through the DAK scheme became an alternative as Baiqi discovered, accidently.

> Baiqi (40 years old) is a contractor who established his enterprise in 1998. In 2008, he was a member of 12 school committees in Pekalongan. Five years earlier, his friend, a school principal of a NU-affiliated junior high school, told him that the Pekalongan office of education had instructed all schools to install school committees as part of the school management system, and that he had put Baiqi's name down as a member of his school committee. Baiqi himself has been active in the NU community in Pekalongan. He could not say no to his dear friend, with whom he had grown up. When other friends from different schools also asked him to join the school committee, for similar reasons—to fulfil a formality of the Pekalongan education office—he simply said yes. "I like to do

good deeds for my friends."

> He never thought that the help that he gave to his friends would benefit his construction business, until a few years later. "I like to hang out at the government complex just to keep up-to-date on news. Once a staff member at the finance office told me about a new scheme of funding to be launched; it was called DAK. Schools can propose their own procurement activities. But it is the school committee that should submit it, not the school headmaster. Then I asked him for detailed information on this DAK scheme and the kind of requirements. I also communicated with a friend at the office of education. After I learned about the scheme, I told my friend the school principal about this chance. He told me to grab it on behalf of the school committee. I arranged everything including going to the ministry of education in Jakarta to check on some requirement. I asked my friend in the Pekalongan local council to guide my proposal, as they also play a role in deciding whether the project can be accepted. I managed it to get a basketball field and a multi-media facility for the school.
>
> After that my name circulated among the school principals. They said that I am a good helper in smoothing the procurement process for their schools. I can only say *Alhamdulillah* (thanks be to God Almighty) that I can do good deeds for them. When I asked Baiqi how much money was involved in each project, he only gave me percentages— just like Joko who failed in his bid to be elected to parliament: the cost of construction is around 70%, the lobby cost is around 15%, and the profit he will make is between 10% and 15%.

In Pekalongan there are 169 elementary schools, 35 junior high schools and 27 senior high schools, both state and private schools. The majority of schools that can obtain funds for school facilities are private schools, because they are self-funded and do not receive funding under other schemes from the ministry of education, such as the School Subsidy Budget, BOS (*Bantuan Operasional Sekolah*). The importance of the DAK scheme for private schools became clear to me when one principal of a private school, the Al Irsyad High School, told me how his school benefitted from the DAK scheme, and that he would do everything he could to procure school facilities through DAK. This

was also the case of Neny, the principal of another private school.

> Neny (born 1973) was a school principal in a private school run by the Maarif Foundation in Pekalongan. The foundation is associated with Nahdatul Ulama (NU). When she heard about the DAK scheme for school procurement, she wanted to send a proposal, yet she had no idea how to do it. She was informed that the school committee should send the proposal, but she had yet to form one. She consulted her brother's friend, who is a contractor, about how to solve the problem. Her brother's friend told her that first she had to establish a school committee; second, she should make sure that one of the members of the committee is a contractor, for which he offered himself. The contractor would then take care of the proposal.
>
> The next day Neny formed a committee, by asking people she knew. The appointment of the school committee was just a matter of formality. "We needed assistance from someone with a background in construction (to access projects). We have no idea how to make a proposal, to whom we should send it, and how to make sure the proposal gets accepted. I heard it needs approval from politicians at the *dewan* (local council). All the teachers are busy with teaching, marking and all that; we have no time to deal with this. But our school building is in need of physical rehabilitation. Also, construction is about so many technical things. We don't know how to deal with it." (Interview 4 September 2008).

As I have already explained in Chapter Three, the process of getting funding through the DAK scheme has changed and is rather more complicated than it used to be. It is not surprising that principals like Neny are confused. School committees must send their proposals to the Ministry of Education, via the Pekalongan office of education (*Dinas Pendidikan*). The local office of education, under the guidelines laid down by the Education Ministry, divides up the allocation. The education office should also consult with politicians on the distribution of projects and involve them in the final decision. Members of school committees—and contractors have a clear advantage if they are already members of committees— need to have contacts at the office of education as well as with local councillors who will help them to ensure their application is

approved. This is a very specific task that can only be performed by those who understand the field—a matter of daily routine for contractors.

The aim of introducing school committees was to facilitate and strengthen participation and to give parents and community members greater ownership of public spending in relation to their schools. However, in Pekalongan, the reality is that school committees are used by contractors. People's participation, especially in sectors such as construction, requires a specific type of knowledge; it does not operate automatically. School principals and teachers with insufficient background in the construction sector have to be pragmatic. Therefore, they encourage contractors to become members of their school committees in order to help them access projects for their schools. In this way, the practice of using relationships and mutual cooperation to get access to funds and resources, fits in the overall style of doing business and using government budgets.

## Conclusion

This chapter has focused on how businesspeople relate to politics and its changing nature in the post Soeharto era in the construction industry, the second sector studied in this thesis. The state-business relations are framed in the context of the introduction of liberalization after the long years of protection enjoyed during the Soeharto era.

I found that there are at least five types of responses among contractors in dealing with liberalization: increasing business capacity (focus on technology and human resources); intensifying links with politicians informally; becoming politicians themselves; making use of business organizations as lobby group; and making use of societal organizations such as school committees, to access projects.

Which of the five responses is chosen by an enterprise depends on at least two factors, namely on the size of the enterprise and the generation of the enterprise (whether it was established before or after 1997). The bigger the scale, the more options entrepreneurs have to help them in their efforts to survive. These options include upgrading technology and recruiting more human resources. By contrast, the smaller the scale of business, the fewer the options and strategies available to deal with the shift in economic policies. The only option that remains open to them, and which they make use of, is engaging into political patronage and by exploiting relationships with politicians.

Regarding the generation of the enterprises, there are differences between strategies of enterprises established during the New Order, and enterprises established after the fall of Soeharto. The older enterprises have been used to following the rules and regulations set by Gapensi to access projects, for example, the way in which enterprises were graded and projects were distributed. When this system of corporatism broke down after the fall of Soeharto, these enterprises had no experience to deal with multiple political actors involved in policy and competition in allocating projects. The main skills of the 'junior' construction enterprises established after the fall of Soeharto, by contrast, are social and political skills. They have less managerial skills compared to the 'senior' enterprises and also often less technical skills, as the majority of them had no experience in the construction field. However,

they have stronger connections to members of the Pekalongan Representative Council, the democratically-elected political actors, who play a significant political role in policy making. They are good in dealing with people and in lobbying to get access to projects. The owners of 'junior' enterprises are also more active in the local society, the majority of them have good connections with mass organizations, such as the NU in Pekalongan. Through these social connections, they have more access than the 'senior' entrepreneurs to for instance school committees, a rich new source of procurement contracts. Despite these differences, political connections continue to be important for all entrepreneurs. Only the nature of the contacts and the multiplicity of actors has changed. While contractors now have to follow formal open bidding procedures to obtain projects, in the end, the right political connections will still determine who gets the job.

Another finding relates to the notion of 'popular participation' promoted by donor agencies. While the aim was well-intended and idealistic, it turned out differently in practice. It did not, for instance, empower parents to be involved in decision making on construction projects in schools; instead, school principals and school committees have been forced to collaborate with contractors to get access to projects for their schools, due to the limited understanding of the construction field possessed by parents and school principals. The reform agenda to promote the participation of school committees in the construction sector, on the one hand, and the limited capacity of the members of school committees, on the other hand, has resulted in an array of informal alliances among contractors, school principals, and the members of school committees.

The construction industry in Pekalongan during the post-Soeharto era highlights the central role of informality in the relationship between business and politics, in both the *way* how it is exercised and in its *format*. One example in Pekalongan where informality is particularly apparent is in a collective effort of the contractors exercised in responding to the 'threat' of outside contractors. Local entrepreneurs and politicians together deemed solidarity necessary for business survival—of the entrepreneurs themselves and of their town. They formed informal alliances and arranged meetings together to discuss their strategies. Their meetings were organized in an informal, secret, way, and the format was highly informal, with no agendas and no records

of meetings. The use of local thugs, preman, to warn off outsiders was their solution to the threats of the market reforms.

I do not suggest that informality was not found in the construction sector during the Soeharto era, the era of protection within the Indonesian construction sector. As I have shown the Chapter Three, the 'father of the Pekalongan construction sector,' Wabi Baisya, managed to be at the top of the Pekalongan construction world due to his personal capacity in being close to prominent Golkar figures in Semarang, Central Java and Jakarta. Gifts, which he always sent to them during the religious festival or on their birthdays, are an example of the importance of political connections for the sector during this era. Yet, I suggest that the practice of informality during the protection era of construction and the post-Soeharto period is not the same. The emergence of new political actors in Pekalongan (and in Indonesia in general), such as democratic parliaments, political parties, and civil society organizations, has created a more complex array of political connections. A successful entrepreneur is the one with the capacity to keep all the political actors and political strategies in his or her scope of attention; it also entails the capacity to make use of them.

# Chapter 7

# CHAPTER 7
# FIGHTING THE NEOLIBERAL AGENDA: BUSINESS AND POLITICS IN A PROVINCIAL TOWN

In this last chapter I summarize my findings and reflect on them within the broader context of neoliberal policies and state-business relationships. I have argued throughout this thesis that since independence in Indonesia relationships between businesspeople and the state, or politics, have been closely intertwined and how this has continued into the post-Soeharto period. After independence, the new nation attempted to establish a so-called 'national economy' by supporting pribumi, small-scale entrepreneurs through affirmative economic policies. During the Soeharto era, the era of the 'developmental state,' cronyism was regarded as key to the success of development, although later it was condemned by donor agencies such as the World Bank. In the post-Soeharto era, generally, the state has tried to be neutral among businesspeople and take up the role of a regulatory body, in an attempt to liberalize the economy and erode entrenched cronyism. The responsibility of the state is now to issue policies, unlike the developmental era when it was the planner, investor and executor of the economic agenda. Yet, in its new role as a regulatory body, politics is still entrenched in business life, especially at the implementation level, as businesspeople attempt to divert and change policy. As a result, policies often fail to achieve their final aims.

What we now see is that at the local level, the relationship between business and politics is determined not just by the model of development, but also in terms of what takes place in real practice—where it is much more nuanced. If the perspective from above (national level) suggests a straight-forward relationship between business and politics in terms of economic policies and their impact, a view from below (local level) shows that business and politics are intertwined and in a much more complex relationship. The relationship between business and politics depends on the specific features of the business concerned—the type of business sector and the scale of a business—as well as the social and political fabric of the provincial town. In addition to that, we also see a high degree of informality in the relationship between business and politics at the local level. This is because at the local level, business activities are embedded in the political and social fabric of the local community, which ultimately contributes to the nature of the relationship between business and politics.

The study has shown that businesspeople in the batik and construction business relate differently to politics or state policies. The batik industry has been liberalized for almost four decades. Small- and medium-scale batik enterprises using traditional techniques have become almost a remnant of the past in Indonesia. This is a sector which shrank due to the invasion of textile technology that was supported by the state to push up production. Large-scale batik entrepreneurs benefitted from this state support and protection, while most small- and medium scale entrepreneurs went bankrupt. In recent years, three decades since the lift of protection, the traditional batik sector is again trying to get state attention, at least on a small scale, by focusing more on 'symbolic' aspects, such as traditional batik being an important symbol of Indonesian identity, or by trying to gain recognition for the existence of batik by establishing a batik museum. Batik entrepreneurs realized that nothing else can be expected of the state. The era of protection is over. Thus, the role of politics in this sector is minimal, and consequently their capacity to react is also limited.

The use of politics in the batik business operates at a more 'micro' level, in the form of business competition among themselves. The expression of this competition is in the form of 'daily politics', such as competition among batik entrepreneurs about who gets free allocation to be in the batik annual

exhibition, competition to access state policy (though the policies are insignificant, but better than nothing), and to maintain batik business networks both in Pekalongan and in Jakarta—related to the small-scale financial sector (such as the network to facilitate the JASA cooperative).

In the second case study of this thesis, the construction sector, state-business relations are more concrete and substantial, which means that without politics you can never survive. The construction sector is a service sector, with most businesses providing services to the government, for example by conducting government procurement activities.

What we can also extract from the two case studies on how business and politics relate is that the scale of business plays a role: the larger the scale, the more capable enterprises are to compete in the open market, as they have more capacity to do so; and then vice versa, the smaller the scale the less competent they are to compete. The latter are more likely to make use of political instruments, by seeking the assistance of politicians. And there are many of these willing to help, who espouse populist discourse, such as: 'Pekalongan money (resources) is for Pekalongan people'.

In addition, the relationship between business and politics at the local level cannot be separated from the electoral democracy introduced at the beginning of the Reformasi. The post-Soeharto era has opened up more opportunities for democratic institutions, such as political parties, as well as regular elections as part of electoral democracy. There is also greater freedom of expression, leading to an active civil society and increased levels of people's participation. These changes have created space for all citizens to be part of politics or the policy-making process. Businesspeople have also been able to make use of the opportunities created by these institutional reforms to further their business ventures. What we can observe is businesspeople linking themselves to politicians, government policy makers and civil society organizations, to access business opportunities. The school committee is an example of a society-based organization which businesspeople use to their advantage.

## 1. Fighting Neoliberalism: Limits of the Technocratic Approach

The persistent intertwining of business and politics has challenged the reform agenda of clean government that the World Bank attempted to push in Indonesia. The reforms are part of a neoliberal policy to create a climate of open market competition in the business field and to discipline politics to follow market principles. Despite the variety of reform programs introduced to try to curb corruption, the clientelistic business-politics relationship persists. Businesspeople at the local level actively defend their economic interests by linking themselves to politicians or by organizing themselves. Thus, all of the neoliberal policies that are supposed to limit the informal relationship between businesspeople and politicians have been 'adapted'. I here show as how this 'adaptation' works in the procurement sector of the construction industry: in the open-tender system, in electronic procurement (*e-proc*) as part of the new set-up of electronic government (*e-govt*), in the establishment of a monitoring body, and in the various rules and regulations which are ready to be implemented. All of these measures were introduced to tame, restrain, and then diminish the close ties between business and politics and, thereby, informal and corrupt behaviour of administrators, politicians and business actors. What I have shown is that businesspeople do find ways around these restrictions.

This technical 'engineering' does not work, as I have shown in this thesis. What happened instead was that businesspeople adapted, and by using various creative means made use of this technocratic and rational (anti politics) set-up to defend their business interests. Thus, it did not lead to good governance (transparency, participation, and accountability) the way the donor imagined. Transparency, participation, and accountability still work, but they work in a totally different manner. The case of the school committee shows people's participation in school procurement activities, but the notion of 'people' is not meant to be those with connections to businesspeople, rather citizens who will genuinely get involved to make sure the procurement process is accountable. The result is that corruption persists.

## 2. Fighting neoliberalism: Identity Politics as a Political Instrument

How can we explain the persistency of close business-politics relations at the local level? I have mentioned briefly above that the practice of informality operates in a context where the embeddedness of business and politics in social life is strong, such as at the local level. Businesspeople in the batik and construction sectors apply strategies of identity politics to defend their interests. This action is often collective action—between business actors, politicians, and civil society actors—and it can be easily organized as they know each other well. Some of them in fact have double roles: as businesspeople as well as being part of civil society organizations. There are also businesspeople who are part of DPRD or having strong connections with members of DPRD. In the construction sector, identity relates to so-called '(local) Pekalongan identity', and in the batik sector it is about 'Indonesian cultural authenticity'. If in 'Pekalongan identity' those excluded are businesspeople from outside, in the case of batik, it is the businesspeople of Chinese descent—those who control the textile technology that is regarded as the main cause of the decline of the traditional batik industry. The aim of promoting the unique character and identity of traditional batik is to put a stop to the use of modern technology in batik processing.

This use of identity politics to keep outsiders physically away from Pekalongan during an open tender process is a particularly good example of the informality that is at work and underlies business-state relationships in Pekalongan. The strategy does not follow the normal rules by which states operate in a Weberian sense. Local politics with their own rules, which are determined more by personal connections than following formal rules, determine the outcome. Since the practice of informality in politics in Pekalongan involves local government actors, this informality confronts us with the "actual practice of state" (Migdal 2001: 16). I have shown how Pekalongan state actors are even willing to break the formal rules, something that legally and formally is difficult to imagine with our definition of the state as Weber suggested. Through the lens of Pekalongan, we observed the practice of state actors, disadvantaged by the liberalization of the construction sector, who join members of the business community to react to liberalization by bending the rules and regulations from Jakarta. They did this informally, which

means there is no formal recognition and no formal record available, though the practice happened. The many grounded examples I have provided in this thesis demonstrate that this indeed is how business gets done at this level. It shows the importance of the approach I have chosen.

## 3. Social Embeddedness at the Provincial Town Level

One of the reasons why informality is an important instrument for getting things done in business relates to the special features of a provincial town. Social and political interaction at the local level is more intimate than at the national level. The geographical and historical aspects of a town are part of the explanation. The geographical (space) factor allows more real and concrete interaction among citizens; the historical aspect relates to the fact that people have known each other for a long time. This social embeddedness contributes to a tendency to resist the neoliberal agenda. As I have shown in Chapters Five and Six, all the people that I referred to have been friends since they were young. This familiarity together with physical proximity in the relatively small area covered by Pekalongan (around 80 km square) makes it easy for them to be in touch and to do business with each other. When focusing on how business operates and economic development proceeds at the local level we, therefore, need a more nuanced and bottom-up approach.

The institutionalist-cum-technocratic approach and most policy-oriented studies ignore the social, historical and geographical fabric of the locality. However, the social and geographical reality also influences the strategies that the central state and international donor agencies have to adopt to discipline the behaviour of local entrepreneurs and local politicians. Due to this tight social embeddedness at the provincial town level, we can begin to grasp the difficulties the state and donor agencies face trying to introduce their intervention programs. The responses to their programs do not accord with the technocratic design that the state and donors have laid down. On the contrary, the responses are often quite the opposite. Businesspeople at the provincial level 'adapt' the policies of the state and of donors, not in terms of packaging but in terms of content, so that the implementation of a policy often becomes something quite different from that anticipated by its designers. Thus, notions of informality and social embeddedness are important in helping us to understand how society works at the level of the provincial town, and why it

'reshapes' state policies.

The central state, with input from donor agencies, can introduce programs aimed at improving competitiveness and efficiency and limiting corruption; however, society, including businesspeople, cannot simply be organized and disciplined by the introduction of regulations. This is especially the case if the programs of the state have a negative impact on the ability to earn a livelihood. Until the present time, the reform programs of the state provided no alternative possibilities for these business entrepreneurs in Pekalongan. Thus they find ways to resist and use whatever opportunities they can to survive, often undermining the good intentions of state programs.

However, I do not underestimate the resilience of the businesspeople of Pekalongan. I began this thesis with the story of the Djunaid family, Ahmad Djunaid and his son Zaki Arslan Djunaid. When the family's batik business declined, Zaki Arslan set up the successful JASA savings and loan cooperative in 1974, using his informal contacts and friends in the Ministry of Cooperates to get permission to operate effectively as a bank. But banking regulations are now being tightened to ensure greater security for public funds and Zaki and his son Andi Arslan Djunaid might therefore be forced to stop operating JASA in this way. I asked Zaki about the new Banking Bill and the effect it would have on his cooperative. In a rather emotional tone he accused the new 'capitalistic and imperialistic' regulations of favouring and 'protecting' big business. After a while, he paused and looked at me, cigarette dangling in hand—then continued, 'But we will find ways to circumvent the bill'. This indicates once more the resilience of the businesspeople at the provincial level of Pekalongan.

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## SUMMARY

Since decentralization in Indonesia in 2001, after the fall of Soeharto, politics at the local level have changed significantly. This has contributed to a change in how business is conducted in provincial towns, far from the megacities of Indonesia. We need a better understanding of politics and how business operates at this level to understand how the business-politics relationship works. This thesis explores the changes in the relationship between the state and business after decentralization, by making a close study of politics in interaction with the business sector. The study focusses on the batik and construction sectors in Pekalongan, a provincial town in Central Java.

Pekalongan has been known as a trading city since historical times. It was, and still is, the center of indigenous (pribumi) textile production including batik. Pekalongan is still an important batik production center marked by a large number of people involved in traditional ways of batik production. Traditional batik production in Pekalongan has survived due to and sometimes despite close connections with the local and national government. Moreover, since 2001, this process of close connections has changed.

As the public sector has grown over the past decades, the construction sector has come to offer alternative business opportunities. As a provincial town, Pekalongan experienced a shift in politics after decentralization. The

power of the local parliament was strengthened, as well as civil society organizations.

Historically, similar to what has happened at the national level, business in Pekalongan can be characterized as 'cronyist' and clientelistic. In this model of capitalism, personal relationships and connections are essential for the development of capitalism and how to conduct business. Along with that, practices of corruption and bribery are common. The practices surrounding the relationship between state and business actors can be labeled as a form of 'informality'.

Today, informal and personal relationships play an important role in the way the state operates and how the state relates to business people. Looking from an institutionalist perspective, according to Cleaver (2002), Benjaminsen and Lund (2002), and Helmke and Levitsky (2004), informality is an inherent part of formal, state organizations. This does not only apply to national levels and departments as described by Lund (2006) and Bierschenk (2010), but even more so to lower government offices.

The reason to apply the notion of informality in this study is that there are many informal and sometimes illegal practices and other violations of government rules among businesspeople and government officials. They are difficult to examine using the standard investigative methods of institutional approaches. Informality will help us grasp the intricate relationships between businesspeople and political actors. In addition, it also helps us to understand the social dimension, or social embededdness, of state-business relations that are set in a broader web of social relations and within wider networks of business and politics. This provides us with greater insight into the way business gets done at the local level than formal institutional analysis can offer.

The findings in this thesis can be summarized in five points. First, the intertwining of business and politics has intensified at the local level in post-Soeharto Indonesia. Businesspeople have resorted to a greater variety of strategies to access business opportunities in the state arena. The changing of the local political landscape—marked by the adoption of a multiparty system, the adaptation of open-list systems in elections, empowered local elected assemblies (DPRD), as well as an increased role

for civil society organizations— contributes to the intensification of the relationship between business and politics at the local level. In addition to that, civil society organizations, whose power has been strengthened, are part of the contestation for power at the local level, increasingly being used by business actors to access resources. During the Soeharto era, there was only one way to get involved in business at the level of a provincial town such as Pekalongan— namely via the ruling party Golkar and members of the military. Now businesspeople can access the state through various avenues, with various strategies, and with various personal connections.

Second, we also observe that the increased quality of liberal democracy does not diminish personal relations, clientelism, collaboration between businesspeople and state actors. Electoral democracy does not necessarily mean the disappearance of the practice of informality and clientelistic practices, as has also been argued by Kitschelt and Witkinson (2007: 2). Thus, local democracy does not necessarily bring clientelism and patronage to an end.

Third, there are similarities as well as differences of practices of business informality in the two business sectors. Both sectors are liberalized now and informality becomes a strategy to protect their business from the negative consequences of neoliberal reforms. The traditional batik sector is now trying to get state protection (something they also had in the 1950s). They are doing this by focusing more on 'symbolic' aspects of batik: by stressing the importance of traditional batik as a symbol of Indonesian identity; and by trying to gain recognition of batik by establishing a batik museum, and a 'batik village' (kampung batik) as a center for traditional batik production. Where traditional batik is a sector in decline, the construction sector (which relies on government procurement) continues to depend on strong networks and links with politicians to access the increasing state resources. Without connections with politicians, small-scale contractors are not able to survive.

Practices of informality are different between the two sectors and tend to depend on the scale of business: the higher the turnover of a particular enterprise in the business sector, the better they are able to compete openly. The need for political connections and political support from the

state for big enterprises is less essential. The reverse is the case with small-scale businesses, which need political support to survive in an open and competitive market. Most entrepreneurs and enterprises in provincial towns belong to the category of small and medium scale. Thus close and intricate relationships with politics are necessary to do business in a provincial town.

Fourth, the forms of informality can differ and are often dependent on the strategic use of identity. In the construction industry this means a focus on local identity as expressed in the claim 'local projects for local companies'; the batik industry draws on class and ethnic identities and narratives in which 'traditional hand-made batik enterprises owned by Javanese Indonesians are opposed to big mechanized factories owned by Chinese Indonesians'. Identity is also a political instrument that can be easily used to mobilize popular support.

With this populist instrument, businesspeople mobilize support from state actors, political parties, as well as from civil society organizations to resist new reform agendas. The effort of global forces and national politics to get small business entrepreneurs at the level of a provincial town to comply with the national and neoliberal reforms to conduct business according to global ideals, do not work well in Pekalongan. I observed that the whole business-political arena at this level is united in resisting neoliberal reforms. Actors at the government level, who are supposed to be neutral as Weberian state theorists suggest, collaborate with businesspeople to resist further reforms although in a covert manner. They are themselves involved in business activities or serve at least as a broker for them. Here we again observe how the boundaries between state, society and business become blurred.

The fifth insight produced by this thesis relates to theoretical reflections on how difficult it is to disentangle formal from informal practices and how these practices operate differently in different types of political arenas. The case of Pekalongan shows how informality works within the formal arena (government) and is engrained in it. This makes the separation of formal vs informal, as often done in the literature, rather artificial. From the findings of this research we can learn how businesspeople, together with

DPRD members, administrators and civil society organizations, practice informality in the formal world and how these practices are part and parcel of this world.

The social and political interaction between entrepreneurs and politicians is more intimate in Pekalongan than at the national level. The geographical and historical aspects of this middle town are part of the explanation: geographical (space) aspects of a town allow more real and concrete interactions among citizens; while historically people have known each other for a long time. This shapes the specific social embeddedness of business relationships at a provincial town.

At a more abstract level, this study shows how a top-down policy approach can be easily diverted at the local level through existing social relationships and intricate interactions between politicians and entrepreneurs and the intermingling of political and business arenas. We can also understand from this thesis how the impact of globalization is mediated at the local level and how neoliberal and institutional reforms, which emphasize improved institutional design and technological intervention to reform the public sector, and which are mainly sponsored by donor agencies, have unintended consequences at the local level. For small-scale enterprises that are threatened by bankruptcy when entering the open market, since they are unable to be competitive, entering into social relationships in search of political protection can be a viable way out. As a result, globalization and market-oriented reforms lead to adaptation as well as resistance at the local level. Local politicians as well as networks of civil society actors support these illegal and semi-legal business strategies, all using local identity arguments for fighting the new regulations and instruments. The thesis also shows that the national state, as a regulatory body, is unable to reach down to this level and curb these practices. Business communities, politicians and elements of civil society have become 'regulatory bodies', not in the ideal way imagined in textbooks, which would provide benefits to the whole nation, but regulatory bodies that benefit mainly their own group.

# SAMENVATTING

Bedrijfsleven en politiek in provinciaal Indonesië

Een studie van de batik en bouw sectoren in Pekalongan, Centraal Java

Sinds decentralisatie begon in Indonesië in 2001, na de val van Soeharto, is de politiek op het lokale niveau aanzienlijk veranderd. Dit heeft bijgedragen aan veranderingen in de manier waarop zaken gedaan wordt in provinciesteden ver weg van de megasteden in Indonesië. Om te begrijpen hoe de relatie tussen bedrijfsleven en politiek werkt, hebben we eerst een beter inzicht nodig in de politiek op het lokale niveau en een meer gedetailleerd beeld van hoe het bedrijfsleven op dit niveau opereert. Dit proefschrift onderzoekt de veranderingen tussen de staat en het bedrijfsleven na het invoeren van decentralisatie via een gedetailleerde studie van de batik en bouwindustrie in Pekalongan, een provinciestad in Centraal Java.

Pekalongan, de onderzoekslocatie, heeft een geschiedenis als handelsstad. Het was, en is nog steeds, het centrum van de inheemse pribumi bedrijfssector voor de productie van textiel waaronder de batik. Andere steden die ook centra voor de productie van batik waren die gerund werden door pribumi ondernemers zoals Majalaya, Tasikmalaya en Cirebon in West Java, Solo en Yogyakarta in Centraal Java, en Lasem in Oost Java, hebben de afgelopen dertig jaar een beperkte rol gespeeld als productiecentra. Pekalongan is momenteel het grootste batik productie centrum in Indonesië. Gezien de groei van de publieke sector in de laatste tientallen jaren, is de bouwsector tevens een

belangrijk alternatief geworden voor het bedrijfsleven. De provinciestad Pekalongan heeft een verschuiving in de politiek ondergaan nadat decentralisatie in 2001 ingevoerd werd. De macht van het lokale parlement werd versterkt en tevens die van de burgermaatschappij (civil society). De uitvoerende macht speelt geen centrale rol in de politiek in Pekalongan.

Net als op het nationale niveau, wordt het bedrijfsleven in Pekalongan gekenmerkt door een specifiek kenmerk van kapitalistische ontwikkeling, namelijk vriendenpolitiek en cliëntelisme. Binnen dit kapitalistische model zijn persoonlijke relaties en connecties essentieel voor kapitalistische ontwikkeling en de manier waarop men zaken doet. Afgezien hiervan zijn praktijken zoals corruptie en omkoping gangbaar voor de manier waarop zaken gedaan wordt. Al deze praktijken kunnen aangeduid worden als een vorm van 'informaliteit'. Informele en persoonlijke relaties spelen een belangrijke rol in de manier waarop de staat opereert en hoe de staat zich tot zakenmensen verhoudt. Vanuit een institutioneel perspectief gezien, zoals beschreven door Cleaver (2002), Benjaminsen en Lund (2002) en Helmke en Levitsky (2009) vormt informaliteit een inherent onderdeel van formele staatsinstituties. Dit geldt niet alleen voor het nationale niveau en departementen zoals beschreven door Lund (2006) en Bierschenk (2010), maar zelfs nog meer voor de lagere overheidskantoren. De reden om het begrip informaliteit in deze studie toe te passen is de veelvoud aan informele en soms illegale praktijken en andere overtredingen van overheidsregelgeving die door zakenmensen toegepast worden. Deze praktijken zijn moeilijk te onderzoeken via de standaard onderzoeksmethoden in sociale wetenschappen. Het begrip informaliteit helpt ons om de ingewikkelde relaties tussen zakenmensen en politieke actoren te begrijpen. Bovendien helpt dit ook om de sociale dimensie of sociale inbedding in het web van netwerken tussen politiek en bedrijfsleven te begrijpen wat uiteindelijk bedraagt aan een beter inzicht in de manier waarop zaken gedaan wordt op het lokale niveau.

Mijn bevindingen in dit proefschrift kunnen worden samengevat in vijf punten. Ten eerste zien we dat de verstrengeling tussen bedrijfsleven en politiek op het lokale niveau is toegenomen in post-Soeharto Indonesië. Zakenmensen hebben een grotere variatie aan strategieën toegepast om toegang te krijgen tot mogelijkheden om zaken te doen binnen de arena van de

staat. De veranderingen in het lokale politieke landschap --- gekenmerkt door de totstandkoming van een meer partijen systeem en een open lijst systeem tijdens verkiezingen, meer bevoegdheden voor lokale parlementen (DPRD) en een grotere rol voor burgerorganisaties --- hebben bijgedragen aan de toegenomen relaties tussen bedrijfsleven en politiek op het lokale niveau. Hier komt bij dat burgerorganisaties die aan invloed hebben toegenomen niet langer deel uitmaken van de lokale democratie, maar in plaats daarvan onderdeel zijn geworden van de betwisting van de macht op het lokale niveau en soms ook gebruikt worden door zakenmensen om toegang te krijgen tot geld en andere hulpmiddelen. Tijdens het Soeharto tijdperk was er slechts één manier om betrokken te raken in het bedrijfsleven in provinciesteden zoals Pekalongan, namelijk via de regerende partij Golkar en militaire officieren. Tegenwoordig kunnen zakenmensen op verschillende manieren toegang krijgen tot de staat via een veelvoud aan strategieën en persoonlijke connecties.

Ten tweede kunnen we zien dat de toegenomen kwaliteit van de liberale democratie niet het belang heeft wegenomen van persoonlijke relaties, cliëntelisme en samenwerking tussen zakenmensen en staatsactoren. Electorale democratie betekent niet noodzakelijk dat praktijken van informaliteit en cliëntelisme zullen verdwijnen, zoals ook beargumenteerd is door Kitschelt en Witkinson (2007: 2). Dus de invoering van lokale democratie maakt niet noodzakelijkerwijs een einde aan cliëntelisme en patronage.

Ten derde zijn er overeenkomsten en verschillen tussen de praktijken van informaliteit die binnen de twee bedrijfssectoren gebruikt worden. Beide sectoren zijn geliberaliseerd en informaliteit is een strategie geworden om bedrijven tegen de neoliberale storm te beschermen. De traditionele batik sector is aan het proberen om staatsbescherming te krijgen (iets dat zij eerder al had in 1950). Men doet dit door meer aandacht te vestigen op de symbolische aspecten van batik: door het belang te benadrukken van traditionele batik voor de Indonesische identiteit en door te proberen erkenning voor batik te krijgen middels een museum en het vestigingen van een ‘batik dorp’ (kampung batik) als centrum voor traditionele batik productie. Voor de traditionele batik sector lijkt het einde in zicht. De bouwsector blijft afhankelijk van sterke netwerken en links met politici om toegang te krijgen tot geld en middelen van de staat. Zonder deze connecties met politici zullen kleinschalige bouwbedrijven nooit

in staat zijn om te overleven, niet nu en niet in de toekomst.

De praktijken van informaliteit zijn verschillend binnen deze twee sectoren. Dit hangt deels af van de schaal van het bedrijfsleven: hoe hoger op de ladder van het bedrijfsleven, hoe beter men in staat is om openlijk te concurreren en de behoefte aan politieke connecties en steun van de staat wordt dan minder belangrijk. Bedrijven die op deze schaal opereerden maken minder vaak gebruik van informele praktijken om hun bedrijf gaande te houden. Het omgekeerde is het geval bij kleinschalige bedrijven die politieke steun nodig hebben om in de open markt te kunnen overleven. Entrepreneurs en bedrijven in provinciesteden behoren grotendeels tot deze categorie van kleine en middelgrote bedrijven. Het onderhouden van relaties met de politiek is voor hen noodzakelijk om zaken te kunnen doen in een provinciestad als Pekalongan.

De vierde bevinding is dat behalve patronage en cliëntelisme identiteit een belangrijk onderdeel is van informele praktijken. In de bouwindustrie betekent dit een nadruk op lokale identiteit --- lokale projecten voor lokale bedrijven. De batik industrie gebruikt een vorm van identiteit die op sociale klasse gebaseerd is --- via een onderscheid tussen bedrijven in handen van Javaanse Indonesiërs die traditionele handgemaakte batik maken versus grote gemechaniseerde fabrieken die in handen zijn van Chinese Indonesiërs. Identiteit is een populistisch instrument dat gemakkelijk ingezet kan worden om steun van de bevolking te mobiliseren.

Via dit populistische instrument hebben zakenmensen steun gemobiliseerd van staatsactoren, politieke partijen en burgerorganisaties om de hervormingsagenda tegen te gaan. De pogingen van wereldwijde organisaties en nationale politiek om de manier van zakendoen voor kleine bedrijven en entrepreneurs in provinciesteden te hervormen volgens een wereldwijd ideaal lopen spaak. Wat ik observeerde was dat op het lokale niveau de hele politieke arena samen komt om deze neoliberale hervormingen tegen te gaan. Actoren binnen de overheid, die eigenlijk neutraal behoren te zijn, werken samen met zakenmensen om de hervormingen tegen te gaan, al gebeurt dit doorgaans op een bedekte manier. Dit toont aan dat actoren binnen de staat niet zo neutraal zijn als de theorie over de staat van Weber suggereert. Overheidsactoren zijn vaak betrokken bij zakenactiviteiten of

nemen op zijn minst een bemiddelende rol hierbij aan. Dus de grenzen tussen staat en samenleving zijn minder duidelijk dan vaak wordt aangenomen.

De vijfde bevinding is een theoretische reflectie op hoe moeilijk het is om het onderscheid tussen formeel en informeel te ontwarren en hoe deze praktijken opereren in een politieke arena die zelf gekenmerkt wordt door formele en informele aspecten.

Mijn studie van Pekalongan toont aan hoe informaliteit werkt in de formele arena (de overheid). Dit maakt het onderscheid tussen formeel versus informeel tamelijk irrelevant. Deze bevinding geeft weer hoe zakenmensen, samen met parlementsleden, overheidsbeambten en burgerorganisaties informele praktijken beoefenen in de formele wereld.

De vele vormen die informaliteit aanneemt in de formele wereld komen tot stand via de sociale en politieke interactie die in een provinciestad intiemer zijn dan op het nationale niveau. De geografische en historische aspecten van een stad zijn deel van de uitleg: de geografische (ruimtelijke) aspecten van een stad maken meer echte en concrete interactie tussen verschillende inwoners mogelijk; tegelijkertijd delen deze inwoners een geschiedenis en kennen ze elkaar vaak sinds lange tijd. Er is een sociale inbedding van zakenrelaties in een provinciestad.

Als we deze bevindingen op een meer abstract niveau bezien, dan toont deze studie aan hoe beleid dat van bovenaf opgelegd wordt gemakkelijk ontweken of omgeleid kan worden op het lokale niveau. Door de lens van Pekalongan hebben we kunnen zien hoe staatsactoren, benadeeld door de liberalisering van de bouwsector, zich bij mensen uit het bedrijfsleven voegden in een gezamenlijke reactie tegen liberalisering door de regels en voorschriften uit Jakarta om te buigen. Zij deden dit op een informele manier, wat betekent dat er geen formele erkenning of officieel verslag hiervan beschikbaar is.

Tot slot geeft dit proefschrift inzicht in de impact van globalisering en neoliberale hervormingen die de nadruk leggen op het institutionele ontwerp van en technische ingrepen in de publieke sector en gesponsord worden door donororganisaties op het lokale niveau. Voor veel kleinschalige bedrijven betekent dit, als zij de hervormingsagenda nastreven door competitief te zijn en toegang te krijgen tot de open markt, in de praktijk vaak bankroet gaan omdat zij de competitie niet aankunnen. Het gevolg is dat er op het lokale niveau vaak

verzet is tegen globalisering en marktgerichte hervormingen. Lokale politici en een netwerk van burgerorganisaties steunen deze illegale strategieën om zaken te doen en gebruiken vaak lokale identiteit als instrument om de hervormingen aan te vechten. De nationale staat, als regelgevende instantie, is niet in staat om op dit niveau door te dringen en deze praktijken aan banden te leggen. Het bedrijfsleven, politici en mensen uit de burgermaatschappij worden 'regelgevende instanties', niet op de manier die ten goede komt aan het nationale niveau zoals het idealiter in tekstboeken voorgesteld wordt, maar als een regelgevende instantie die ten goede komt aan de eigen groep.

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# Business and politics in provincial Indonesia: The batik and construction sector in Pekalongan, Central Java

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# UNIVERSITAS GADJAH MADA

YOGYAKARTA – INDONESIA

**Business and Politics in Provincial Town**
**The Batik and Construction Sector**
**in Pekalongan, Central Java**

Since decentralization in Indonesia in 2001, after the fall of Soeharto, politics at the local level have changed significantly. This thesis explores the changes in the relationship between the state and business after decentralization, by making a close study of politics in interaction with the business sector. The study focuses on the batik and construction sectors in Pekalongan, a provincial town in .Central Java

This thesis shows how local democracy and reform in public sector facilitated the strengthened of clientelism and patronage, rather than end them. The neoliberal and institutional reforms, which emphasize improved institutional design and technological intervention to reform the public sector, and which are mainly sponsored by donor agencies, have unintended consequences at the local level. As a result, globalization and market-oriented reforms lead to adaptation as well as resistance at the local level. The resistance took from in the language of identity politics such as Pekalongan-ness and cultural sentiments. These are instruments they can use to protect their business, and their life

**Amalinda Savirani**

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